Interim Report

for the six months ended 30 September 2010

HSBC Infrastructure Company Limited

HSBC

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HSBC

The Directors of HSBC Infrastructure Company Limited announce the results for the six months ended 30 September 2010.

Highlights

for the six months ended 30 September 2010 (on an Investment basis unless noted otherwise[1])

Robust portfolio performance with solid cash generation

Profit before tax of £23.4m (2009: £8.5m)

Interim distribution of 3.275p for six months to 30 September 2010 declared, with a scrip dividend alternative

Company targeting a full year distribution of 6.7p per share for year ending 31 March 2011

Net asset value ("NAV") per share at 30 September 2010 of 111.3p (31 March 2010: 107.1p) on a consolidated IFRS basis and 112.4p (31 March 2010: 110.7p) on an Investment basis

NAV per share post distribution of 109.2p at 30 September 2010 compared to 107.4p at 31 March 2010

Directors' Valuation of the portfolio at 30 September 2010 of £563.3m, up from £509.6m at 31 March 2010

Two acquisitions in the period totalling £47.5m

Four further investments contracted (3 subsequently acquired and 1 outstanding) and 2 incremental stakes made since period end, totalling £93.2m

Good pipeline of further investment opportunities being considered

Successful raising of £46.6m (net of expenses) through utilising the block listing to place 41.7m shares in the period

1. In order to provide shareholders with further information regarding the Group's net asset value, coupled with greater transparency in the Company's capacity for investment and ability to make distributions, as in previous periods, the results have been restated in proforma tables with all investments accounted for on an Investment basis.

Results on an Investment basis

for the six months to	30 September 2010	30 September 2009
Profit before tax (Revenue)	£9.0m	£9.8m
Profit/(Loss) before tax (Capital)	£14.4m	£(1.3)m
Profit before tax	£23.4m	£8.5m
Earnings per share	4.9p	2.3p
Interim distribution per share	3.275p	3.2p

Net Asset Values

	Consolidated IFRS basis	Investment basis
Net Asset Value (NAV) per share at listing	98.4p	98.4p
NAV per share at 30 September 2010	111.3p	112.4p
Interim distribution per share	3.275p	3.275p
NAV per share at 30 September 2010 after deducting the interim distribution	108.1p	109.2p
NAV per share at 31 March 2010 after deducting the final distribution	103.8p	107.4p

Results on a Consolidated IFRS basis

for the six months to	30 September 2010	30 September 2009
Profit before tax (Revenue)	£7.5m	£24.1m
Profit before tax (Capital)	£30.8m	£2.6m
Profit before tax	£38.3m	£26.7m
Earnings per share	7.2p	5.5p
Interim distribution per share	3.275p	3.2p

Information on HSBC Infrastructure Company Limited

HSBC Infrastructure Company Limited ("HICL" or the "Company" or, together with its 100% owned subsidiaries, the "Group") was the first investment company listed on the London Stock Exchange set up to invest in infrastructure projects. It was successfully launched in March 2006 and raised £250m with which it purchased an initial portfolio (the "Initial Portfolio") of interests in 15, mostly operational, PFI/PPP projects. It now has a portfolio of 38 interests in infrastructure projects (including one investment contracted to be acquired) in the UK, the Netherlands and Canada, and a mezzanine loan interest in Kemble Water, the Thames Water acquisition vehicle.

Since launch, the Company has paid the following dividends:

- first period to 31 March 2007 a total of 6.1p
- second year to 31 March 2008 a total of 6.25p
- third year to 31 March 2009 a total of 6.4p
- fourth year to 31 March 2010 a total of 6.55p (first interim of 3.2p and second of 3.35p).

The Company is targeting a progressive distribution policy and growth of annual distributions to 7.0p per share by March 2013. The long-term target Internal Rate of Return ("IRR") is 7 to 8% (based on the March 2006 launch issue price of 100p).

At launch in March 2006, there were 250,000,000 Ordinary Shares issued. As at 30 September 2010 the number of Ordinary Shares in issue was 496,321,977.

The Investment Adviser to the Company is HSBC Specialist Fund Management Limited, which is authorised and regulated by the Financial Services Authority, and is a subsidiary of HSBC Specialist Investments Limited ("HSIL"), HSBC's infrastructure and real estate investment arm. Of HSIL's staff, nine are currently fully dedicated to advising the Group, together with three asset managers. They are supported by HSIL's central functions including finance, risk, credit analysis, compliance, tax, investor relations as well as HSIL's senior infrastructure management team, which through the investment committee leads investment decisions, asset monitoring and has oversight of the day-to-day operation of the Group.

On 4 June 2010, the Company announced that the management of HSBC Specialist Investments Limited ("HSIL"), the infrastructure and real estate arm of the HSBC Group ("HSBC") and owner of the Company's Investment Adviser, HSFML, had agreed outline terms with HSBC for a change of ownership which would lead to the HSIL management team owning the majority of the infrastructure and property fund management businesses currently undertaken by subsidiaries of HSIL (the "HSIL Businesses") with HSBC retaining a 20% stake in the business. It is currently envisaged that the transaction will be completed at the end of the first quarter of 2011.

As the Company's Investment Adviser, which forms part of the HSIL Businesses being acquired by the management team, will not be controlled by the HSBC Group going forward, the trademark licence will be terminated and the Company will no longer have the right to use the HSBC name and the HSBC brand. The Board therefore proposed that the name of the Company should be changed to "HICL Infrastructure Company Limited", and this was approved by shareholders at the extraordinary general meeting held on 10 November 2010. The Board believes that this new name will, while dispensing with the HSBC brand, preserves the Company's identity and maintains recognition amongst investors and the wider marketplace. It is currently expected that the Company will change its name by 31 March 2011, and the Company will update shareholders when the timetable has been finalised.

The Company's investment policy is set out on the Company's website: **www.hicl.hsbc.com**

Group Investment Portfolio

as at 15 November 2010

Accommodation	Education	Education	Health	Law & Order
Colchester Garrison	Bradford Schools	Helicopter Training	Barnet Hospital	D & C Firearms Training
Health & Safety HQ	Conwy Schools	Highlands Schools	Bishop Auckland Hospital	Exeter Crown Court
Home Office	Darlington Schools	Kent Schools	Blackburn Hospital	GMPA Police Stations
Newcastle Libraries	Defence 6th Form College	North Tyneside Schools	Central Middlesex Hospital	MPA Firearms Training
Transport	Ealing Schools	Pinnacle Schools, Fife	Oxford John Radcliffe	MPA SEL Police Stations
Dutch High Speed Rail	Haverstock School	Renfrewshire Schools	Queen Alexandra Hospital	Sussex Custodial
Kicking Horse Canyon P3	Health & Safety Laboratories	Wooldale Centre	Romford Hospital	**Utilities**
M80 Motorway DBFO			Stoke Mandeville Hospital	Kemble Water Junior Loan
NW Anthony Henday P3			West Middlesex Hospital	

Key:

- Portfolio at 31 March 2010
- Additional stakes since April 2010
- Acquired since April 2010
- Contract to be acquired

Chairman's Statement

Introduction

On behalf of the Board, I am once again pleased to report that the Company has maintained steady progress in the six months to 30 September 2010. The existing portfolio continues to perform as planned. We have sourced a new investment and an incremental acquisition in the period and raised £46.6m through the placing of shares under our block listing.

Our share price in the last six months has traded consistently at a premium to net asset value per share, in part we believe a reflection of our dividend prospects and balance sheet stability.

We are announcing later today proposals to raise further equity capital by way of a C-share issue, which will position the Group well for 2011 when we aim to further grow our investment portfolio.

Performance of the portfolio

The Group's portfolio as at 30 September 2010 consisted of 34 investments, 33 PFI/PPP projects and an investment in the junior loan in Kemble Water. Apart from Bradford Schools, all the projects were fully operational. Bradford Schools is currently in construction and will become operational in 2011.

As in previous periods, there are no material operational matters upon which to report. As noted in the Investment Adviser's Report, the Investment Adviser continues its active management of the portfolio and is working with our partners at the project level, to deliver the required services and find, where possible, fresh ways of providing better value for the public sector clients.

A further four new investments have been added since the period end, details of which appear in the Investment Adviser's Report.

Financial results

On a consolidated IFRS basis, the profit before tax was £38.3m (2009: £26.7m). The profit before tax has benefited from material gains on finance receivables driven by a 0.7% decrease in UK long term gilt rates over the six months to September which has been partly off-set by adverse interest rate swap mark to market movements.

As in previous periods, the Company has also prepared pro-forma accounts on an Investment basis (treating all 34 holdings as investments). Profit before tax on an Investment basis was £23.4m (2009: £8.5m) and earnings per share on an Investment basis were 4.9p (2009: 2.3p). This increase in profits reflects favourable fair value movements in the portfolio from a good portfolio performance, which in the comparative period were adversely impacted by an increase in the discount rate of 0.4%.

Cash received from the portfolio by way of distributions, capital repayments and fees was £21.8m, and after Group costs, was net £16.3m, which more than covers the interim dividend paid. Cash generation was in line with forecast for the first half of the year, and is expected to be in line with plan for the full year.

1 On an annualised basis (being the Group's operational expenses excluding acquisition costs, divided by the Group's net assets on an Investment basis)

Total fees accruing to HSBC Specialist Fund Management Limited (the Investment Adviser) amounted to £3.5m in the six months, comprising their 1.1% per annum management fee (1.5% pa paid on assets in construction), 1.0% fee on the acquisitions made, and £0.1m advisory fees. In addition, the Group contracted with other parts of the HSBC Group on an arms length basis for the provision of bank accounts, foreign exchange hedges, and insurance broking.

The total expense ratio for the Group on an Investment basis was 1.51%[1]. This compares with 1.45% for the year to 31 March 2010, with the small increase due primarily to the bid costs on investments made since the period end.

More details of the financial results are set out on page 15.

Distributions

The Board has declared an Interim dividend of 3.275p per share for the 6 months ended 30 September 2010, with a scrip dividend alternative. This represents a 2.3% growth year on year. The target distribution for the full year ending 31 March 2011 is 6.7p per share, with the second interim dividend forecast to be paid in June 2011.

A circular is being sent to shareholders to explain the scrip dividend alternative. Shareholders need to decide by 14 December 2010 on whether to take up the scrip dividend offer in part or in full. The dividend (or scrip dividend) will be paid to those shareholders on the register as at 19 November 2010, and will be settled at the end of December.

Valuation

As in previous periods, the Investment Adviser has prepared a fair market valuation for each investment in the portfolio as at 30 September 2010. For the PFI/PPP investments, this valuation is based on a discounted cashflow analysis of the future expected equity and loan note cashflows accruing to the Group from each investment. This valuation exercise uses key assumptions which are derived from a review of recent comparable market transactions in order arrive at a fair market valuation. For traded investments, assets are valued according to the relevant market quotation.

The Directors have satisfied themselves with the methodology used, the economic assumptions, and the discount rates applied.

As is customary, the Directors have also taken independent third party advice on the valuation carried out by the Investment Adviser.

The Directors have approved the valuation of the portfolio of 34 investments to be £563.3m as at 30 September 2010. On the Bradford Schools project there is an outstanding equity commitment of £7.2m. The weighted average discount rate of the operational PFI/PPP investments was 8.6%, which was the same as the rate at 31 March 2010. In the six month period, the long dated risk free rates have reduced by 0.7% but a compensatory adjustment to the risk premium has meant that the overall discount rate has remained level. The Board considers the discount rates used to be appropriate after consulting with both the Investment Adviser and the independent valuation expert, together with a review of other valuation comparables.

The valuation of £563.3m compares with £509.6m at 31 March 2010 and £464.5m as at 30 September 2009. An analysis of the growth in the valuation is detailed in the Investment Adviser's Report.

The resulting NAV per share on an IFRS basis at 30 September 2010 is 111.3p (31 March 2010: 107.1p, and 98.4p at 31 March 2006).

On an Investment basis the NAV per share is 112.4p at 30 September 2010 (31 March 2010: 110.7p, and 98.4p at 31 March 2006). The Investment basis NAV per share after the second interim distribution at 31 March 2010 was 107.4p; the increase of 1.8p (to 109.2p, being the 112.4p less the interim distribution of 3.275p) is due to a robust performance from the investment portfolio supported by inflation rates above the valuation assumption, as described in more detail in the Investment Adviser's Report.

Portfolio acquisitions and pipeline

The Group has made the following acquisitions in the six months to 30 September 2010:

- In June, the Group acquired at 74.9% interest in the Queen Alexandra Hospital, Portsmouth for £46.4m, and
- In September, the Group acquired an additional interest in the Sussex Custodial project for £1.1m.

Since the period end, the Group has:

- In early October signed a conditional contract to acquire 4 new investments from subsidiaries of Bilfinger Berger SE for approximately £65.9m, subject to receiving the necessary third party consents. Three of these investments have subsequently been acquired and only the M80 Motorway DBFO investment is awaiting satisfaction of the relevant conditions
- In mid-October acquired additional interests in the Oxford John Radcliffe Hospital project and Queen Alexandra Hospital, Portsmouth for a total of £27.3m.

The Group continues to look selectively for further acquisitions consistent with its stated investment policy. The preferred sectors are currently:

- Predominantly: PFI/PPP/P3 projects
  - Geographies – mainly UK, together with Europe, North America, and Australia
  - Project status – mainly operational, but some assets under construction will be considered (potentially offering further NAV growth)
- Potentially: operational renewable energy projects such as wind farms, solar parks or hydro-electric schemes, where there are suitable contractual structures in place, enabling the Group to secure long term income streams comparable in nature to those in PFI/PPP/P3 projects.
- Possibly:
  - Regulated utilities. Most investments made in this sector would be too large for the Group but small scale potential opportunities, with appropriate risk/return characteristics, can arise from time to time, and
  - Debt funding in infrastructure projects. We will remain selective and only consider where it is attractively priced and appropriately structured.

Investment Adviser

Since launch, the Investment Adviser to the company has been HSBC Specialist Fund Management Ltd ("HSFML") who has successfully worked with and assisted the Board in the development of the Group over the last four and a half years.

On 4 June 2010, the Company announced that the management of HSBC Specialist Investments Limited ("HSIL"), the infrastructure and real estate arm of the HSBC Group ("HSBC") and owner of the Company's Investment Adviser, HSFML, had agreed outline terms with HSBC for a change of ownership which would lead to the HSIL management team owning the majority of the infrastructure and property fund management businesses currently undertaken by subsidiaries of HSIL (the "HSIL Businesses") with HSBC retaining a significant minority stake in the business. It is currently envisaged that the transaction will be completed at the end of the first quarter of 2011.

The Board has met the Investment Adviser's management team on a number of occasions to seek and gain reassurance that this change of ownership will have no impact on the ability of the Investment Adviser to deliver the required services to the appropriate standards. We have agreed a small number of amendments to the Investment Adviser's contract, all of which we believe are beneficial to the Company, and we are satisfied that the Company will continue to receive high quality service and commitment from the Investment Adviser.

As part of this process we reviewed the alignment of interest of the Investment Adviser with the Group. Apart from the fees earned, the Investment Adviser does not receive any other income from the Group as they do not provide any services to the underlying projects. Any fees paid by the projects are for the Group's benefit. The Board believes that this is both an important principle and that the Investment Adviser has adhered to the policy of transparency adopted by the Group at launch.

The Board has also taken the opportunity to review the level of fees earned by the Investment Adviser. Whilst appropriate at launch, the Group has now doubled in size and I am pleased to confirm therefore, that we have agreed a small change to the fee structure. For investments under management with an incremental value in excess of £750m, the Investment Adviser's incremental fee is reduced to 1.0% per annum (from 1.1% per annum) with effect from 1 January 2011, provided that the assets have become operational.

As these changes are to the benefit of the Company, they do not require shareholder approval.

As the Company's Investment Adviser, which forms part of the HSIL Businesses being acquired by the management team, will not be controlled by the HSBC Group going forward, the trademark licence will be terminated and the Company will no longer have the right to use the HSBC name and the HSBC brand. The Board therefore proposed that the name of the Company should be changed to "HICL Infrastructure Company Limited", and this was approved by shareholders at the extraordinary general meeting held on 10 November 2010. The Board believes that this new name will, while dispensing with the HSBC brand, preserve the Company's identity and maintain recognition amongst investors and the wider marketplace. It is currently expected that the Company will change its name by 31 March 2011, and the Company will update shareholders when the timetable has been finalised.

Accounting

At 30 September 2010, the Group had 11 investments which it was deemed to control by virtue of having the power, directly or indirectly, to govern the financial and operating policies of the project entities. Under International Financial Reporting Standards ("IFRS"), the results of these companies are required to be fully consolidated in the Group's financial statements on a line-by-line basis.

As in previous periods, in order to provide shareholders with a more meaningful representation of the Group's net asset value, coupled with greater transparency in the Company's capacity for investment and ability to make distributions, the results have been restated in proforma tables which are presented in the Financial Results section. The proforma tables are prepared with all investments accounted for on an Investment basis. By deconsolidating the subsidiary investments, the performance of the business under consolidated IFRS basis may be compared with the results under the Investment basis.

Risks and uncertainties

The Company is issuing a Prospectus today as part of the planned C share issue. In the section entitled "Risk Factors", the Board sets out all the key risks associated with investing in the Company. In addition, the Company's Annual Report and Consolidated Financial Statements for the year to 31 March 2010 has a section on Risk and Risk Management.

At this time it is not possible to assess accurately what impact the agreed draft of the European Directive on Alternative Investment Fund Managers will have on the Group and the Company but the outlook suggests it may not be significant. The Company is a member of the Association of Investment Companies, ("AIC") which is representing the industry in successfully lobbying the authorities and working through the full implications of implementation of this directive.

Each of the PFI projects in the portfolio has long term funding in place and so does not need access to new debt capital. Where the debt is subject to a floating rate of interest, long term interest rate swaps have been put in place to fix the cost. All projects are satisfying their financial covenants. Projects do have exposures to banks in the form of interest rate swaps and deposit accounts. The portfolio has limited exposure to monoline insurers.

The projects in the portfolio rely on contracting partners to provide services to each project. There is a good spread of service partners and no material performance or credit issues have arisen.

The recent Comprehensive Spending Review in the UK has focused predominantly on the need to cut public spending, whilst highlighting the need for further investment in UK infrastructure to promote economic growth. Although the detail has yet to be made public, there may be some future impact on the Group's established portfolio or new business opportunities.

For existing UK PFI projects, there is ongoing dialogue between the public and private sectors to make projects as cost effective as possible. The Investment Adviser's team is working with clients to make savings where possible, and is not aware of any developments which may be of concern to us.

For future new projects, most attention to date has been focused on new transportation infrastructure. Whilst it is too early to be certain, it is likely that a number of new social infrastructure assets (such as schools, social housing, hospitals and government buildings) will be procured but the quantum of commitment will be less than has been seen in the recent past. This is unlikely to affect the Group, as our new investment focus is generally on projects already procured and in the main, already operational.

Outlook

In the current climate, the Board is confident that our strategy remains appropriate. We continue to acquire and manage cash generative assets with strong risk mitigants embedded within the projects. We have recently invested in a small number of construction assets which, whilst not being immediately cash producing, offer the scope for good returns and some element of future NAV growth. We have also diversified, albeit modestly, by geography with the acquisition of transportation assets in Canada. Our cautious approach to growing the portfolio has been rewarded by stable valuations and delivery of a progressive distribution policy.

The current portfolio of projects is performing as planned and this is expected to enable the Company both to continue its progressive distribution policy and to deliver an element of NAV per share growth.

As I mentioned earlier this year, a combination of capital raising through the block listing and unused debt facilities would enable the Company to make new investments with the maximum flexibility and often with a competitive advantage in the bidding process.

To ensure our competitive strength is maintained, we are announcing (later today) a C share issue with the aim of raising further equity in order that we have the necessary capacity to make the most of the opportunities presented to us.

The Company is in excellent shape and continues to perform well. Despite tough economic conditions generally, we expect our progress to continue and hence our positioning for further growth. Our Investment Adviser is fully engaged and committed to our future success.

Graham Picken
Chairman
15 November 2010

Investment Adviser's Report

Introduction

Over the six month period the Group has continued to perform robustly against a difficult economic backdrop. The current economic environment while challenging is serving to highlight the quality and the predictable nature of the cash flows from the portfolio and inherent in the PFI/PPP sector. All of the PFI projects have long-term concessions with public sector clients, and none of them require refinancing to meet their long-term business plans.

At 30 September the Group had 34 infrastructure investments in the UK and Europe. Since 30 September the Group has announced the acquisition of a further 4 PFI/PPP investments – 2 in the UK and 2 in Canada. Following completion of these acquisitions the Group will have a portfolio of 37 PFI/PPP projects and the investment in the Kemble Water Junior Loan. The portfolio of PFI/PPP projects is predominately operational, delivering yield to the Group with only 3 of the 37 projects in construction which equates to 10% of the portfolio by value.

The portfolio of investments has delivered in line with our forecasts, with no material operational matters to report on any of the projects. None of the investments is impaired.

The secondary market for PFI/PPP projects continues to generate a steady pipeline of opportunities for the Group to consider with the downturn stimulating owners of these assets to sell. We believe that the pipeline of new investment opportunities that meet with the Investment Policy will endure to enable further acquisitions which will be value accretive to the portfolio.

Strategy

The Group's acquisition strategy remains as previously stated: to focus on both maximising of value from the portfolio and securing new investments to enhance the portfolio.

For new investments, we are concentrating on PFI/PPP concessions, both in operations and in construction and infrastructure assets with comparable risk and return profiles.

Our current geographic focus is those countries with a developed PFI/PPP market. This includes the UK, Europe, Canada (where the programme is called P3) and Australia. In the case of renewable energy projects, we have evaluated a number of opportunities but to date, we have not found a project where we believe the risk/return balance is appropriate. We will continue to evaluate schemes when suitable opportunities arise.

To achieve maximum value from the portfolio, we seek to ensure each project delivers good quality services to its public sector client. In delivering these services to the contractual requirements, and by creating positive client relationships through genuine partnering, we can maintain contractual revenues, be well placed for any new revenue opportunities, and where potential issues arise, ensure our partners and we respond promptly and positively, to achieve timely resolution, and minimal downsides.

Market

In the period, a small number of new PFI/PPP projects have been signed in the UK and the Buildings Schools for the Future initiative was curtailed. This does not directly affect the Group since any new acquisitions are likely to be already operational or in their construction phase. In the secondary PFI/PPP market there has been a steady flow of assets onto the market with both individual assets and portfolios being marketed by contractors and financial institutions. A number of these opportunities have been declined due to their small size.

The assets which have been reviewed in detail have included PFI/PPP/P3 assets (both in construction and in operation), operational renewable energy projects and utility assets. These projects have been located in the UK, Europe, Canada and Australia.

The Investment Adviser expects the flow of potentially attractive investment opportunities to continue as vendors focus on their core assets or seek disposals to de-leverage their balance sheets.

Portfolio performance

All the operational projects continue to perform well, delivering in accordance with their service requirements. There are no material matters upon which to report.

Our asset management team continues to work on the performance plans for each project in the portfolio. These plans cover incremental revenue opportunities, cost savings, treasury management and financial optimisation. In the current economic environment where clients are under pressure to reduce costs we are working with them to seek efficiencies and cost savings. These initiatives may include outsourcing additional services to the project or modifying the scope of the services required.

As at 30 September 2010, the Group's portfolio consists of 34 infrastructure investments, of which 33 are PFI/PPP projects in the UK and Europe. All the PFI/PPP projects were fully operational and delivering services with the exception of Bradford Schools. Bradford Schools is under construction, which is now being reported again as being behind programme, suggesting the target completion dates may not be met. Our current assessment is that this will have minimal impact on our investment in this project.

All of the PFI/PPP projects in the portfolio have long term debt in place and do not need any refinancing to meet their current financial targets. The weighted average PFI/PPP project concession length remaining is 23.6 years at 30 September 2010 and the weighted average debt tenor is 21.9 years.

Investment Adviser's Report *(continued)*

Acquisitions

As reported in the Chairman's Statement, the Group made two acquisitions in the six months to 30 September 2010.

In June, the Group acquired a 74.9% interest in the Queen Alexandra Hospital PFI project in Portsmouth for a consideration of £46.4m. The hospital has 1,026 inpatient beds, 34 neonatal intensive care cots, 3 endoscopy suites and 20 main operating theatres. It is fully operational and the concession contract runs until December 2040. A subsidiary of Carillion plc operates the hospital under a long-term services agreement.

In September, the Group acquired an incremental 7.55% equity interest and 17.65% loan note interest in the Sussex Custodial Centre PFI project for £1.1m, taking its total equity interest in the project to 89.9% and loan note interest to 100%.

Subsequent to the 30 September the Group has announced a number of further acquisitions.

In early October, the Group announced the acquisition, subject to third party consents, of two UK PFI projects and two Canadian P3 projects from subsidiaries of Bilfinger Berger. The consideration was £65.9m, including deferred investment subscription obligations of approximately £46.1m at October exchange rates. The four interests are:

- a 50% interest in the Kent Schools PFI project ("Kent Schools"),
- a 41.6% indirect interest in the M80 motorway DBFO project currently under construction in Scotland (the "M80 Motorway DBFO"). Through the future exercise of option rights over minority interests, this interest will increase to 49.9%,
- a 50% interest in the North-West Anthony Henday ring road P3 project currently in construction in Alberta, Canada ("North-West Anthony Henday P3"), and
- a 50% interest in the Kicking Horse Canyon Transit P3 project in British Columbia, Canada ("Kicking Horse Canyon P3"), part of the Trans-Canada Highway.

As at 15 November, various consents had been obtained and Kent Schools, NW Anthony Henday P3, and Kicking Horse Canyon P3 projects have been acquired. Consents on the M80 Motorway DBFO Road project are expected to be obtained shortly.

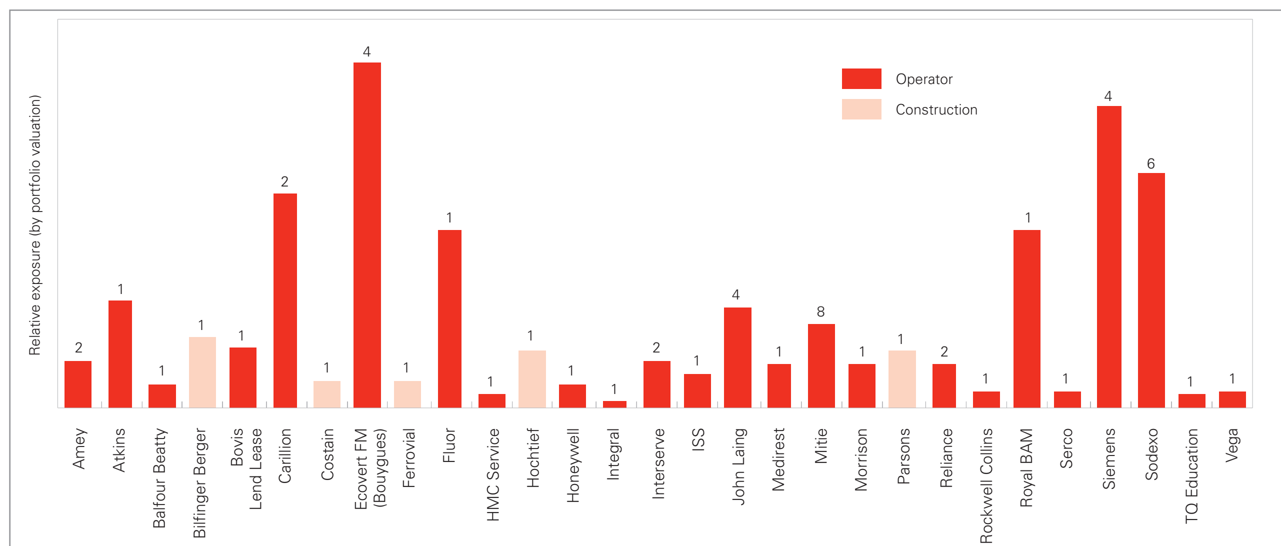
In mid October, the Group acquired two incremental interests, firstly an incremental 15.0% equity interest and 25.1% loan note interest in the Queen Alexandra Hospital PFI project for £13.4m and secondly an incremental 39.9% equity interest and 50% loan note interest in the Oxford John Radcliffe Hospital project for £13.9m. These acquisitions take the Group's interest in each of these projects to 89.9% of the equity and 100% of the loan notes.

Counterparties

The Investment Adviser regularly reviews the portfolio's counterparty exposure. All the PFI clients are public sector bodies. New acquisitions tend to further diversify the range of counterparties in the supply chain. The recently announced Canadian acquisitions provide an element of diversification from the predominately UK based revenue streams from the portfolio.

The portfolio has a broad spread of facility management suppliers providing services to the projects with no over-reliance on any one supplier. These suppliers are experienced facilities managers including well known providers such as Bouygues, Sodexo, Carillion, Mitie and Interserve. There have been no service issues to date that might indicate financial difficulties for any of our facilities managers.

Spread of contractors on the PFI/PPP projects



Note to chart: Analysis of the various providers, shown by aggregate valuation of PFI/PPP projects involved in. On some projects there is more than one service provider e.g. Dutch High Speed Rail where Royal BAM, Siemens, and Fluor provide services; so that the sum of the bars is in excess of the Directors' valuation.

Valuation

The Investment Adviser is responsible for carrying out the fair market valuation of the Group's investments which is presented to the Directors for their approval and adoption. The valuation is carried out on a six monthly basis as at 31 March and 30 September each year.

The Directors receive an independent third party report and opinion on these valuations.

For non-market traded investments, the valuation principles used are based on a discounted cash flow methodology, and adjusted in accordance with the European Venture Capital Associations' valuation guidelines where appropriate to comply with IAS 39, given the special nature of infrastructure investments. Where an investment is traded, currently only the Kemble Water Junior Loan, a market quote is used.

This is the same method used at the time of launch and each subsequent six month reporting period (further details can be found in the Company's Annual Report and Consolidated Financial Statements for the year to 31 March 2010, available from the Company's website).

The Directors' Valuation of the portfolio as at 30 September 2010 is £563.3m. This portfolio valuation compares to £509.6m as at 31 March 2010 (up 10.5%) and £250.4m at the time of launch (a reconciliation between the valuation at 30 September 2010 and that shown in the financial statements is given in Note 1 to the unaudited consolidated proforma financial statements, the principle difference being the £7.2m of loan stock commitment on Bradford Schools).

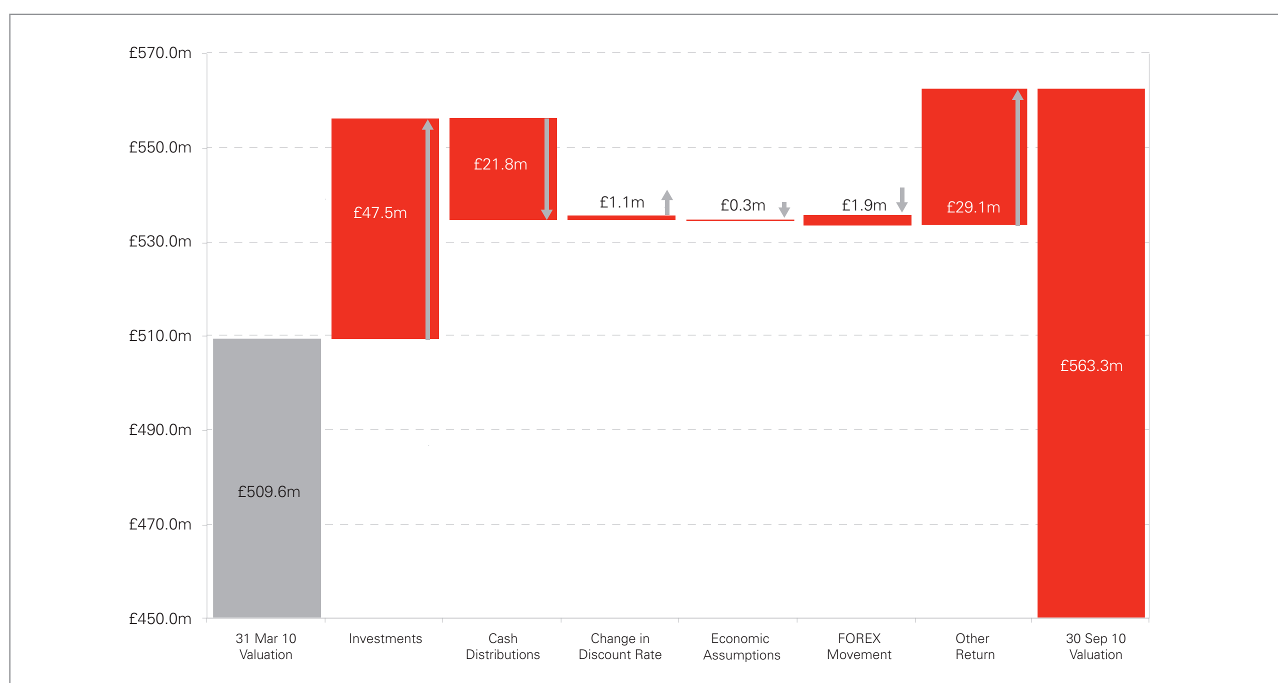
The growth in the Directors' Valuation over the last 6 months is from £509.6m to £563.3m, the components of which are tabled below.

Valuation movement during the six months to 30 September 2010 – £m

Valuation at 31 March 2010	509.6
Investments	47.5
Cash receipts	(21.8)
Change in discount rate	1.1
Change in Economic Assumptions	(0.3)
Forex movement on Dutch High Speed Rail Link	(1.9)
Return	29.1
Valuation at 30 September 2010	563.3

Netting out acquisitions in the period of £47.5m, and investment receipts of £21.8m, the growth over the rebased value of £535.3m was 5.2%. This increase arose from a solid project performance supported by inflation rates above the valuation assumption of 2.75% and a value uplift on the Kemble Water junior loan. The change in discount rate which has increased the valuation by £1.1m arises from a lower discount rate on Bradford Schools reflecting construction progress and a marginally lower discount rate on the Dutch High Speed Rail Link following falls in the Dutch risk free rate in excess of falls in the UK risk free rate.

Valuation movements in the six months to September 2010



Fair value for each investment is derived from the present value of the investment's expected future cash flows, using reasonable assumptions and forecasts and an appropriate discount rate. The Investment Adviser exercises its judgment in assessing the expected future cash flows from each investment based on the detailed concession life financial models produced by each Project Company.

Discount rates

The discount rates used for valuing each PFI/PPP investment are based on the appropriate risk free rate (derived from the relevant government bond or gilt) and a risk premium. The risk premium takes into account risks and opportunities associated with the project earnings (e.g. predictability and covenant of the concession income), all of which may be differentiated by project phase, and market participants appetite for these risks.

The discount rates used for valuing the projects in the portfolio are as follows:

	PFI/PPP portfolio		Whole portfolio (including Kemble Water Junior loan)	
Period ending	**Range**	**Weighted average**	**Range**	**Weighted average**
30 September 2009	8.2% to 11.0%	8.6%	8.2% to 17.1%	8.7%
31 March 2010	8.4% to 11.0%	8.7%	8.4% to 13.2%	8.8%
30 September 2010	**8.4% to 10.0%**	**8.7%**	**8.4% to 10.3%**	**8.7%**

The Investment Adviser uses its judgement in arriving at the appropriate discount rate. This is based on its knowledge of the market, taking into account intelligence gained from its bidding activities, discussions with financial advisers in the appropriate market and publicly available information on relevant transactions.

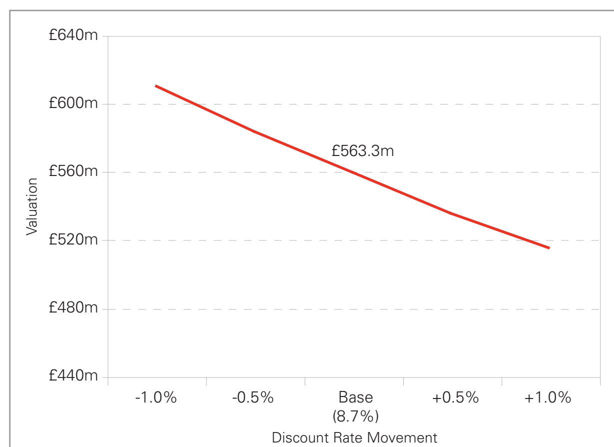
An analysis of the movements in the weighted average risk free rate and risk premium for the PFI/PPP assets (excluding the Kemble Water Junior Loan) is shown below:

PFI/PPP portfolio	30 September 2010	31 March 2010	Movement
Risk free rate	3.7%	4.4%	(0.7%)
Risk premium	5.0%	4.3%	+0.7%
Discount Rate	**8.7%**	**8.7%**	**–**

In the 6 months to 30 September the risk free rates as referenced by long term UK gilt rates (average of 20 and 30 year) and Dutch Government bonds have decreased by approximately 0.7%. In the Investment Adviser's opinion, this decrease has not been reflected in the discount rates used to value UK PPP assets bought and sold in the market, where the Investment Adviser has not seen any material upward or downward movements since March.

The average discount rate applicable to the operational PFI/PPP assets at September was 8.6%, unchanged from March. The 8.7% weighted average discount rate for the PFI/PPP portfolio, at 0.1% above that for operational PFI/PPP assets, reflects the effect of the 10.0% discount rate on Bradford Schools project, the single construction asset in the portfolio as at 30 September 2010.

Discount Rate Sensitivity



Inflation indexation

The PFI projects in the portfolio have contractual income streams with public sector clients, which are rebased every year for inflation. UK projects tend to use either RPI (Retail Price Index) or RPIx (RPI excluding mortgage payments), and revenues are either partially or totally indexed (depending on the contract and the nature of the project's financing). Facilities management sub-contracts have similar indexation arrangements.

The inflation assumptions used in the valuation are unchanged from March with UK inflation assumed at 2.75% per annum. In arriving at these rates, consideration has been given to current short term economic forecasts and the long term Bank of England targets for inflation. The current forecasts for RPI in December 2011 range from 2.4% to 4.9% from 30 City institutions, with an average of 3.6% as compiled by HM Treasury.

Inflation Sensitivity

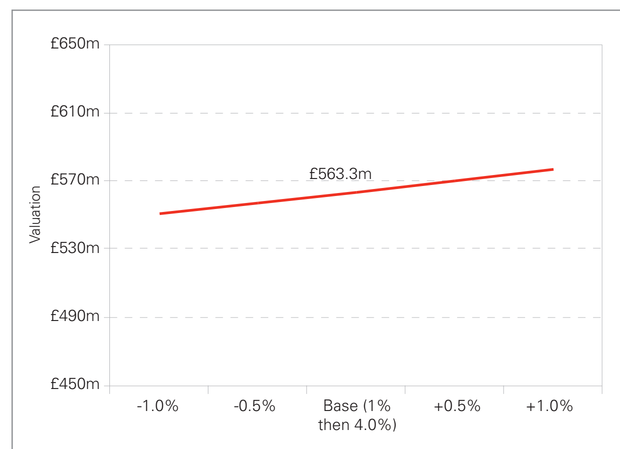
Deposit rates

Each PFI project in the portfolio has cash held in bank deposits, and this is a function of their financing structure. As at 30 September 2010 the UK base rate was 0.5% and cash deposits in the portfolio were earning interest at an average rate of 0.7% per annum.

The deposit rate assumptions used in the valuation have decreased from March with deposit interest assumed at 1.0% to March 2012 and 4.0% per annum thereafter. This is a decrease from March in the long term forecast of 0.5% which reflects a decrease in the long term market libor rates since March. This change has reduced the portfolio valuation at September by approximately £6.0m and is included within the £0.3m aggregate change in portfolio value attributable to changes in Economic Assumptions.

Each of the project's interest costs are at a fixed rate either through fixed rate bonds or bank debt which is hedged with an interest rate swap. The project's sensitivity to interest rates relates to the cash deposits which the projects are required to maintain as part of their funding. For example most projects would have a debt service reserve account in which 6 months of debt service payments are held.

Deposit Rates Sensitivity



Tax rates

The profits of each UK PFI project company are subject to UK corporation tax. In the June Budget the Coalition Government announced that corporation tax would reduce from 28% to 27% from April 2011 with an aspiration to reduce corporation tax further to 24% in 1% annual increments.

The corporation tax assumption for the portfolio valuation at September is 26%, which has reduced by 2% from 28% at March, to reflect the changes announced in the June Budget. This change has increased the portfolio valuation at September by approximately £5.7m and is included within the £0.3m aggregate change in portfolio value attributable to changes in Economic Assumptions.

Financing

In the six months to September the Company has issued 41,665,946 shares, raising net proceeds of £46.6m and a further 354,717 shares as scrip dividends in June. The net proceeds have been used to reduce the Group's debt net of the cost of the new acquisitions made. As at 30 September 2010, the Group had £192.8m of undrawn debt capacity available to fund further acquisitions in line with the Company's stated strategy.

The strategy is to use the Group's debt facilities to fund new acquisitions, to provide letters of credit for future subscription obligations, and to provide a prudent level of debt for the portfolio to improve the operational gearing.

As noted in the Chairman's Statement, the Company announced in October a C share issue, to reduce the Group's debt to provide the Group with additional capacity to make further acquisitions.

Financial Results

Accounting

At 30 September 2010, the Group had 11 investments which it was deemed to control by virtue of having the power, directly or indirectly, to govern the financial and operating policies of the project entities, unchanged from 31 March 2010. Under International Financial Reporting Standards ("IFRS"), the results of these companies are required to be consolidated in the Group's financial statements on a line-by-line basis.

However, these investments form part of a portfolio of similar investments which are held for investment purposes and managed as a whole and there is no distinction made between those investments classified as subsidiaries and those which are not. Further, all debt owed by the Group's investments is non-recourse and the Group does not participate in their day to day management.

As in previous periods, in order to provide shareholders with further information regarding the Group's net asset value, coupled with greater transparency in the Company's capacity for investment and ability to make distributions, the results have been restated in proforma tables which are presented in the Investment Adviser's Report. The proforma tables are prepared with all investments accounted for on an Investment basis. By deconsolidating the subsidiary investments, the performance of the business under consolidated IFRS basis may be compared with the results under the Investment basis.

The proforma tables show all investments accounted for on an Investment basis, which are reconciled to the consolidated financial statements on a line by line basis.

Income and Costs

Summary income statement

	Six months to 30 September 2010			Six months to 30 September 2009		
	Investment basis £million	Consolidation adjustments £million	IFRS basis £million	Investment basis £million	Consolidation adjustments £million	IFRS basis £million
Total Revenue Income	15.2	72.6	87.8	16.2	69.1	85.3
Expenses & Finance Costs	(6.2)	(74.1)	(80.3)	(6.4)	(54.8)	(61.2)
Profit before tax & valuation movement	**9.0**	**(1.5)**	**7.5**	**9.8**	**14.3**	**24.1**
Fair value movements	14.4	16.4	30.8	(1.3)	3.9	2.6
Tax and minority interests	(0.0)	(4.0)	(4.0)	(0.2)	(6.9)	(7.1)
Earnings	**23.4**	**10.9**	**34.3**	**8.3**	**11.3**	**19.6**
Earnings per share	**4.9p**		**7.2p**	**2.3p**		**5.5p**

On an Investment basis, Profit before tax and valuation movement was £9.0m down slightly on the comparative period because the Dutch High Speed Rail Link September dividend was paid in October and was therefore not recognised in the period.

Fair value movements are a £14.4m profit which represents an increase within the Directors' valuation of the portfolio taken through the Income Statement. Further detail on the valuation movement is given in the Investment Adviser's Report.

Earnings on an Investment basis were £23.4m, up £15.1m as compared to the comparative period. This represents earnings per share of a 4.9p (2009: 2.3p). The increase in earnings is a result of more favourable fair value movements in the period compared to the comparative period.

On a consolidated IFRS basis, the earnings per share were 7.2p as compared to earnings per share of 5.5p in 2009. The results on a consolidated IFRS basis are better than on an Investment basis because the value of the subsidiaries recognised under IFRS have increased materially from the 0.7% decrease in UK long term gilt rates which has not impacted valuations on an investment basis due to increases in the project risk premium.

Total income on a consolidated IFRS basis of £87.8m is slightly above that of the prior year, while Profit before tax and valuation movement is significantly lower than in prior year because the comparative period benefited from significantly reduced finance costs arising from the effect of negative inflation on the index link bond financing the Home Office project.

Cost analysis

	Six months to 30 September 2010 Investment basis £million	Six months to 30 September 2009 Investment basis £million
Interest income	0.0	0.1
Interest expense	(1.5)	(2.7)
Investment Adviser	(3.5)	(2.9)
Auditor – KPMG – for the Group	(0.1)	(0.1)
Directors fees & expenses	(0.1)	(0.1)
Other expenses	(1.0)	(0.7)
Expenses & finance costs	**(6.2)**	**(6.4)**

Interest was a net cost of £1.5m in the year (2009: £2.6m) decreased from the prior year due to lower net debt in the period.

Total fees accruing to HSBC Specialist Fund Management Limited (the Investment Adviser) totalled £3.5m (2009: £2.9m) for the six months, comprising the 1.1% per annum management fee (1.5% for assets in construction), the 1.0% fee on the acquisitions made, and the £0.1m per annum advisory fee.

Growth in the year is attributable to the management fee from the increase in portfolio value. In addition, the Group contracted with other parts of the HSBC Group on an arms length basis for the provision of bank accounts, foreign exchange hedges, and insurance broking.

Other expenses have increased £0.3m from the prior year, reflecting increased bidding activity.

Total Expense Ratio ('TER')

	Six months to 30 September 2010 £million	Six months to 30 September 2009 £million
Administrative expenses	4.7	3.8
Less operator acquisition investment fees	(0.5)	(0.3)
Total expense	4.2	3.5
Net assets	558.1	409.8
TER	1.51%	1.71%

Compared to the 2009 six month period, the TER for the Group has reduced 0.2% in the year to 1.51%. This is a result of the positive effect of the Group's capital raisings which have enabled the expenses to be spread over an enlarged asset base. The TER of 1.51% is slightly above the 1.45% for the year to 31 March 2010 due to the bid costs expensed in the six months relating to acquisitions made since the period end.

Balance Sheet

Summary balance sheet

	30 September 2010			31 March 2010		
	Investment basis £million	**Consolidation adjustments** £million	**IFRS basis** £million	**Investment basis** £million	**Consolidation adjustments** £million	**IFRS basis** £million
Investments at fair value	**555.8**	**(196.6)**	**359.2**	**501.3**	**(193.9)**	**307.4**
Other non-current assets	–	1,017.6	1,017.6	–	979.3	979.3
Working capital	(3.9)	17.7	13.8	(4.8)	11.8	7.0
Net cash/(borrowings)	15.5	(602.6)	(587.1)	11.0	(604.0)	(593.0)
Other non-current liabilities	(9.3)	(229.3)	(238.6)	(4.6)	(196.7)	(201.3)
Minority interests	–	(12.3)	(12.3)	–	(12.8)	(12.8)
Net assets	**558.1**	**(5.5)**	**552.6**	**502.9**	**(16.3)**	**486.6**
NAV per share (before distribution)	**112.4p**		**111.3p**	**110.7p**		**107.1p**

On an Investment basis, Investments at fair value were £555.8m (31 March 2010: £501.3m) net of £7.5m in future equity commitments on Bradford Schools and the Helicopter Training projects. This is an increase of £54.5m or 10.9%. Further detail on the movement in Investments at fair value is given in the Investment Adviser's Report under Valuation.

Net cash on an Investment basis was £15.5m (31 March 2010: £11.0m) with no debt drawn under the Group's facilities. The breakdown of the movements in net cash is shown in the cash flow analysis below.

Other financial liabilities of £9.3m (31 March 2010: £4.6m) are the mark to market valuation of the Group's interest rate swaps and a foreign currency hedging contract.

On an Investment basis, NAV per share was 112.4p before the 3.275p distribution (110.7p at 31 March 2010).

On a consolidated IFRS basis, net assets have increased to £552.6m (31 March 2010: £486.6m) reflecting £46.9m from the issue of shares (including scrip dividends) since March and £19.1m of retained profits following payment of the second interim dividend of 3.35p per share. NAV per share was 111.3p (31 March 2010: 107.1p).

Cashflow analysis

Summary cash flow

	Six months to 30 September 2010 Investment basis £million	Six months to 30 September 2009 Investment basis £million
Net borrowings at start of period	**11.0**	**(57.7)**
Cash from investments	21.8	25.0
Operating costs outflow	(4.4)	(3.2)
Net interest paid	(1.1)	(2.3)
Net cash inflow before acquisitions/financing	**16.3**	**19.5**
Cost of new investments	(48.9)	(23.9)
Forex movement on borrowings/hedging	5.3	0.5
Share capital raised net of costs	46.6	33.0
Dividends paid	(14.8)	(10.9)
Net cash (borrowings) at end of period	**15.5**	**(39.5)**

On an Investment basis the Group's net cash at 30 September was £15.5m (31 March 2010: £11.0m).

Cash from investments was £21.8m (2009: £25.0m). This has decreased from the previous year as the comparative period benefited from bringing forward the timing of a number of receipts, which subsequently reversed in the later half of the year.

Cost of investments of £48.9m (2009: £23.9m) represents the acquisition costs of Queen Alexander Hospital of £46.4m, incremental stake in Sussex Custodial of £1.1m, and loan note subscriptions on the Helicopter Facility of £0.7m and associated acquisition costs of £0.7m.

The £5.3m (2009: £0.5m) forex movement arises from the effect of the weakening value of the Euro on the forward sales of Euros. The forward Euro sales are to hedge the Group's Euro exposure on the Dutch High Speed Rail Link asset.

Cash receipts in the period from share capital raised net of costs was £46.6m (2009: £33.0m) which represents placing of shares under the block listing.

Dividends paid were £14.8m (2009: £10.9m) in the six months (being the payment of 3.35p per share in June 2010), which were cash covered by the net cash inflow before financing of £16.3m (2009: £19.5m).

Gearing

The Group has a committed £200m five year revolving facility from Bank of Scotland plc ("BoS") expiring in December 2012, which has been used to fund acquisitions. The interest rate has been partially hedged for the duration of the facility. Foreign exchange risk from Euro income from the Dutch High Speed Rail Link has been managed in the period through forward Euro sales and by drawing Euros under the debt facility.

As at 30 September 2010, the Group had no debt drawn under this facility, and had net cash on an Investment basis of £15.5m (31 March 2010: £11.0m).

There are £7.5m of outstanding equity subscription obligations for the portfolio, the largest of which is on Bradford Schools. This is for £7.2m and is supported by a letter of credit drawn under the BoS facility. The BoS facilities are on a recourse basis to the Group and the letter of credit drawn is 1% (excluding cash and cash equivalents) of the Directors' Valuation of £563.3m as at 30 September 2010.

On a consolidated IFRS basis, the Group had net debt of £587.1m at 30 September 2010 (31 March 2010: £593.0m). This decrease in net debt primarily reflects the scheduled debt repayments by the operating subsidiaries.

As previously reported, all the PFI projects have either long term bank borrowings with interest rate hedges, or bonds with fixed or indexed coupon payments. This ensures the Group's investments have minimal exposure to interest rate volatility or debt market appetite.

The Company's Articles of Association limit the Group's recourse debt to 50% of Adjusted Gross Asset Value of its investments and cash balances.

Unaudited consolidated proforma income statement

for the six months ended 30 September 2010

	Six months ended 30 September 2010				
	Investment basis			Consolidation adjustments	Consolidated IFRS basis
	Revenue £million	Capital £million	Total £million	£million	£million
Services revenue	–	–	–	57.0	57.0
Gains on finance receivables	–	–	–	68.2	68.2
Gains/(loss) on investments	15.2	12.5	27.7	(11.6)	16.1
Total income	15.2	12.5	27.7	113.6	141.3
Services costs	–	–	–	(47.9)	(47.9)
Administrative expenses	(4.7)	–	(4.7)	(1.4)	(6.1)
Profit before net finance costs and tax	10.5	12.5	23.0	64.3	87.3
Finance costs	(1.5)	(0.4)	(1.9)	(49.5)	(51.4)
Finance income	–	2.3	2.3	0.1	2.4
Profit before tax	9.0	14.4	23.4	14.9	38.3
Income tax expense	–	–	–	(2.5)	(2.5)
Profit for the period	9.0	14.4	23.4	12.4	35.8
Attributable to:					
Equity holders of the parent	9.0	14.4	23.4	10.9	34.3
Minority interests	–	–	–	1.5	1.5
	9.0	14.4	23.4	12.4	35.8
Earnings per share – basic and diluted *(pence)*	1.9	3.0	4.9	2.3	7.2

	Six months ended 30 September 2009				
	Investment basis			Consolidation adjustments	Consolidated IFRS basis
	Revenue £million	Capital £million	Total £million	£million	£million
Services revenue	–	–	–	55.0	55.0
Gains on finance receivables	–	–	–	15.9	15.9
Gains/(loss) on investments	16.2	(3.3)	12.9	(5.8)	7.1
Total income/(loss)	16.2	(3.3)	12.9	65.1	78.0
Services costs	–	–	–	(46.4)	(46.4)
Administrative expenses	(3.8)	–	(3.8)	(1.1)	(4.9)
Profit/(loss) before net finance costs and tax	12.4	(3.3)	9.1	17.6	26.7
Finance costs	(2.7)	–	(2.7)	(8.0)	(10.7)
Finance income	0.1	2.0	2.1	8.6	10.7
Profit/(loss) before tax	9.8	(1.3)	8.5	18.2	26.7
Income tax expense	(0.2)	–	(0.2)	(4.9)	(5.1)
Profit/(loss) for the period	9.6	(1.3)	8.3	13.3	21.6
Attributable to:					
Equity holders of the parent	9.6	(1.3)	8.3	11.3	19.6
Minority interests	–	–	–	2.0	2.0
	9.6	(1.3)	8.3	13.3	21.6
Earnings/(loss) per share – basic and diluted *(pence)*	2.7	(0.4)	2.3	3.2	5.5

See Note 2 to the condensed unaudited consolidated financial statements for the definition of revenue and capital items.

Unaudited consolidated proforma balance sheet

as at 30 September 2010

	30 September 2010			31 March 2010		
	Investment basis £million	**Consolidation adjustments** £million	**Consolidated IFRS basis** £million	**Investment basis** £million	**Consolidation adjustments** £million	**Consolidated IFRS basis** £million
Non-current assets						
Investments at fair value through profit or loss *(Note 1)*	555.8	(196.6)	359.2	501.3	(193.9)	307.4
Finance receivables at fair value through profit or loss	–	808.7	808.7	–	772.0	772.0
Intangible assets	–	166.3	166.3	–	170.6	170.6
Deferred tax assets	–	42.6	42.6	–	36.7	36.7
Total non-current assets	555.8	821.0	1,376.8	501.3	785.4	1,286.7
Current assets						
Trade and other receivables	1.2	20.4	21.6	0.1	12.0	12.1
Finance receivables at fair value through profit or loss	–	16.8	16.8	–	16.6	16.6
Cash and cash equivalents	15.5	51.1	66.6	12.8	54.3	67.1
Total current assets	16.7	88.3	105.0	12.9	82.9	95.8
Total assets	572.5	909.3	1,481.8	514.2	868.3	1,382.5
Current liabilities						
Trade and other payables	(4.9)	(18.9)	(23.8)	(4.7)	(16.2)	(20.9)
Current tax payable	(0.2)	(0.6)	(0.8)	(0.2)	(0.6)	(0.8)
Loans and borrowings	–	(29.9)	(29.9)	–	(29.6)	(29.6)
Total current liabilities	(5.1)	(49.4)	(54.5)	(4.9)	(46.4)	(51.3)
Non-current liabilities						
Loans and borrowings	–	(623.8)	(623.8)	(1.8)	(628.7)	(630.5)
Other financial liabilities (fair value of derivatives)	(9.3)	(104.6)	(113.9)	(4.6)	(80.3)	(84.9)
Deferred tax liabilities	–	(124.7)	(124.7)	–	(116.4)	(116.4)
Total non-current liabilities	(9.3)	(853.1)	(862.4)	(6.4)	(825.4)	(831.8)
Total liabilities	(14.4)	(902.5)	(916.9)	(11.3)	(871.8)	(883.1)
Net assets	558.1	6.8	564.9	502.9	(3.5)	499.4
Equity						
Shareholders' equity	558.1	(5.5)	552.6	502.9	(16.3)	486.6
Minority interest	–	12.3	12.3	–	12.8	12.8
Total equity	558.1	6.8	564.9	502.9	(3.5)	499.4
Net assets/(liabilities) per share *(pence)*	112.4	(1.1)	111.3	110.7	(3.6)	107.1

Unaudited consolidated proforma cash flow statement

for the six months ended 30 September 2010

	Six months ended 30 September 2010			Six months ended 30 September 2009		
	Investment basis £million	Consolidation adjustments £million	Consolidated IFRS basis £million	Investment basis £million	Consolidation adjustments £million	Consolidated IFRS basis £million
Cash flows from operating activities						
Profit before tax	23.4	14.9	38.3	8.5	18.2	26.7
Adjustments for:						
(Gains)/loss on investments	(27.7)	11.6	(16.1)	(12.9)	5.8	(7.1)
Gains on finance receivables	–	(68.2)	(68.2)	–	(15.9)	(15.9)
Interest payable and similar charges	1.5	24.9	26.4	2.7	8.0	10.7
Changes in fair value of derivatives	(1.9)	24.5	22.6	(2.0)	(8.5)	(10.5)
Operator acquisition investment fees	0.5	–	0.5	0.3	–	0.3
Interest income	–	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Amortisation of intangible assets	–	4.3	4.3	–	4.0	4.0
Operating cash flow before changes in working capital	(4.2)	11.9	7.7	(3.5)	11.5	8.0
Changes in working capital:						
Increase in receivables	(0.4)	(8.7)	(9.1)	(0.4)	(13.9)	(14.3)
Increase in payables	0.2	0.7	0.9	0.7	4.6	5.3
Cash flow (used in)/from operations	(4.4)	3.9	(0.5)	(3.2)	2.2	(1.0)
Interest received on bank deposits and other similar income	4.9	0.3	5.2	0.3	0.1	0.4
Cash received from finance receivables	–	30.3	30.3	–	25.5	25.5
Interest paid and similar charges	(1.1)	(17.9)	(19.0)	(2.4)	(15.8)	(18.2)
Corporation tax paid	–	(0.4)	(0.4)	–	(0.4)	(0.4)
Interest received on investments	14.8	(4.7)	10.1	17.9	(2.3)	15.6
Dividends received	6.1	(1.0)	5.1	5.5	(0.8)	4.7
Fees and other operating income	0.9	(0.1)	0.8	0.8	(0.3)	0.5
Loan stock and equity repayments received	–	–	–	0.8	–	0.8
Net cash from operating activities	21.2	10.4	31.6	19.7	8.2	27.9
Cash flows from investing activities						
Purchases of investments	(48.9)	–	(48.9)	(23.9)	–	(23.9)
Net cash used in investing activities	(48.9)	–	(48.9)	(23.9)	–	(23.9)
Cash flows from financing activities						
Proceeds from issue of share capital	46.6	–	46.6	33.0	–	33.0
Proceeds from issue of loans and borrowings	44.4	–	44.4	23.5	–	23.5
Repayment of loans and borrowings	(47.5)	(11.6)	(59.1)	(45.8)	(9.0)	(54.8)
Distributions paid to Company shareholders	(14.8)	–	(14.8)	(10.9)	–	(10.9)
Distributions paid to minorities	–	(2.0)	(2.0)	–	(1.1)	(1.1)
Net cash from/(used in) financing activities	28.7	(13.6)	15.1	(0.2)	(10.1)	(10.3)
Net increase/(decrease) in cash and cash equivalents	1.0	(3.2)	(2.2)	(4.4)	(1.9)	(6.3)
Cash and cash equivalents at beginning of period	12.8	54.3	67.1	9.1	45.1	54.2
Exchange gains on cash	1.7	–	1.7	1.7	–	1.7
Cash and cash equivalents at end of period	15.5	51.1	66.6	6.4	43.2	49.6

Notes to the unaudited consolidated proforma financial statements

for the six months ended 30 September 2010

1. Investments

The valuation of the Group's portfolio at 30 September 2010 reconciles to the condensed consolidated balance sheet as follows:

	30 September 2010 £million	**31 March 2010** £million
Portfolio valuation	563.3	509.6
Less: undrawn loanstock commitments	(7.5)	(8.3)
Portfolio valuation on an investment basis	555.8	501.3
Less: equity and loanstock investments in operating subsidiaries eliminated on consolidation	(196.6)	(193.9)
Investments per consolidated balance sheet on an IFRS basis	359.2	307.4

Directors' statement of responsibilities

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union; and
- the Chairman's Statement and Investment Adviser's Report meets the requirements of an interim management report, and includes a fair review of the information required by:
  a. DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b. DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

G Picken
Chairman
15 November 2010

Independent review report to HSBC Infrastructure Company Limited

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the six months ended 30 September 2010 which comprise the Condensed Unaudited Consolidated Income Statement, Condensed Unaudited Consolidated Balance Sheet, Condensed Unaudited Consolidated Statement of Changes in Shareholders' Equity, Condensed Unaudited Consolidated Cash Flow Statement and the related notes. We have read the other information contained in the interim report including the proforma information and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the DTR of the UK FSA.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The condensed set of financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the period ended 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the EU and the DTR of the UK FSA.

Steven D Stormonth
for and behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
20 New Street, St Peter Port
Guernsey GY1 4AN

15 November 2010

Condensed unaudited consolidated income statement

for the six months ended 30 September 2010

	Note	Six months ended 30 September 2010 Unaudited Revenue £million	Capital £million	Total £million	Six months ended 30 September 2009 Unaudited Revenue £million	Capital £million	Total £million
Services revenue		57.0	–	57.0	55.0	–	55.0
Gains/(loss) on finance receivables		20.6	47.6	68.2	18.6	(2.7)	15.9
Gains/(loss) on investments	*9*	10.2	5.9	16.1	11.7	(4.6)	7.1
Total income/(loss)		87.8	53.5	141.3	85.3	(7.3)	78.0
Services costs	*4*	(47.9)	–	(47.9)	(46.4)	–	(46.4)
Administrative expenses	*4*	(6.1)	–	(6.1)	(4.9)	–	(4.9)
Profit/(loss) before net finance costs and tax		33.8	53.5	87.3	34.0	(7.3)	26.7
Finance costs		(26.4)	(25.0)	(51.4)	(10.7)	–	(10.7)
Finance income		0.1	2.3	2.4	0.8	9.9	10.7
Profit before tax		7.5	30.8	38.3	24.1	2.6	26.7
Income tax credit/(expense)	*8*	4.0	(6.5)	(2.5)	(3.2)	(1.9)	(5.1)
Profit for the period		11.5	24.3	35.8	20.9	0.7	21.6
Attributable to:							
Equity holders of the parent		8.4	25.9	34.3	17.4	2.2	19.6
Minority interests		3.1	(1.6)	1.5	3.5	(1.5)	2.0
		11.5	24.3	35.8	20.9	0.7	21.6
Earnings/(loss) per share – basic and diluted *(pence)*	*5*	1.7	5.5	7.2	4.9	0.6	5.5

All results are derived from continuing operations. See Note 2 of Notes to the condensed unaudited consolidated financial statements for the definition of revenue and capital items. There is no other comprehensive income or expense apart from those disclosed above.

The notes on pages 29 to 35 form an integral part of the financial statements.

Condensed unaudited consolidated balance sheet

as at 30 September 2010

	Note	30 September 2010 Unaudited £million	31 March 2010 Audited £million
Non-current assets			
Investments at fair value through profit or loss	*9*	359.2	307.4
Finance receivables at fair value through profit or loss		808.7	772.0
Intangible assets		166.3	170.6
Deferred tax assets		42.6	36.7
Total non-current assets		1,376.8	1,286.7
Current assets			
Trade and other receivables		21.6	12.1
Finance receivables at fair value through profit or loss		16.8	16.6
Cash and cash equivalents		66.6	67.1
Total current assets		105.0	95.8
Total assets		1,481.8	1,382.5
Current liabilities			
Trade and other payables		(23.8)	(20.9)
Current tax payable		(0.8)	(0.8)
Loans and borrowings	*11*	(29.9)	(29.6)
Total current liabilities		(54.5)	(51.3)
Non-current liabilities			
Loans and borrowings	*11*	(623.8)	(630.5)
Other financial liabilities (fair value of derivatives)		(113.9)	(84.9)
Deferred tax liabilities		(124.7)	(116.4)
Total non-current liabilities		(862.4)	(831.8)
Total liabilities		(916.9)	(883.1)
Net assets		564.9	499.4
Equity			
Ordinary share capital	*10*	–	–
Share premium		280.9	234.0
Retained reserves		271.7	252.6
Total equity attributable to equity holders of the parent		552.6	486.6
Minority interests		12.3	12.8
Total equity		564.9	499.4
Net assets per share *(pence)*	*7*	111.3	107.1

The notes on pages 29 to 35 form an integral part of the financial statements.

Condensed unaudited consolidated statement of changes in shareholders' equity

for the six months ended 30 September 2010

Six months ended 30 September 2010

	Attributable to equity holders of the parent				Minority interests	Total equity
	Share capital £million	**Share premium** £million	**Retained reserves** £million	**Total shareholders' equity** £million	£million	£million
Shareholders' equity at beginning of period	–	234.0	252.6	486.6	12.8	499.4
Profit for the period	–	–	34.3	34.3	1.5	35.8
Distributions paid to Company shareholders	–	–	(15.2)	(15.2)	–	(15.2)
Distributions paid to minorities	–	–	–	–	(2.0)	(2.0)
Ordinary shares issued	–	47.3	–	47.3	–	47.3
Costs of share issue	–	(0.4)	–	(0.4)	–	(0.4)
Shareholders' equity at end of period	–	280.9	271.7	552.6	12.3	564.9

Six months ended 30 September 2009

	Attributable to equity holders of the parent				Minority interests	Total equity
	Share capital £million	**Share premium** £million	**Retained reserves** £million	**Total shareholders' equity** £million	£million	£million
Shareholders' equity at beginning of period	–	106.5	269.6	376.1	4.1	380.2
Profit for the period	–	–	19.6	19.6	2.0	21.6
Distributions paid to Company shareholders	–	–	(11.1)	(11.1)	–	(11.1)
Distributions paid to minorities	–	–	–	–	(1.4)	(1.4)
Ordinary shares issued	–	39.2	–	39.2	–	39.2
Costs of share issue	–	(0.4)	–	(0.4)	–	(0.4)
Shareholders' equity at end of period	–	145.3	278.1	423.4	4.7	428.1

The notes on pages 29 to 35 form an integral part of the financial statements.

Condensed unaudited consolidated cash flow statement

for the six months ended 30 September 2010

	Six months ended 30 September 2010 Unaudited £million	Six months ended 30 September 2009 Unaudited £million
Cash flows from operating activities		
Profit before tax	38.3	26.7
Adjustments for:		
Gains on investments	(16.1)	(7.1)
Gains on finance receivables	(68.2)	(15.9)
Interest payable and similar charges	26.4	10.7
Changes in fair value of derivatives	22.6	(10.5)
Operator acquisition investment fees	0.5	0.3
Interest income	(0.1)	(0.2)
Amortisation of intangible assets	4.3	4.0
Operating cash flow before changes in working capital	7.7	8.0
Changes in working capital:		
Increase in receivables	(9.1)	(14.3)
Increase in payables	0.9	5.3
Cash flow used in operations	(0.5)	(1.0)
Interest received on bank deposits and other similar income	5.2	0.4
Cash received from finance receivables	30.3	25.5
Interest paid and similar charges	(19.0)	(18.2)
Corporation tax paid	(0.4)	(0.4)
Interest received on investments	10.1	15.6
Dividends received	5.1	4.7
Fees and other operating income	0.8	0.5
Loanstock and equity repayments received	–	0.8
Net cash from operating activities	31.6	27.9
Cash flows from investing activities		
Purchases of investments	(48.9)	(23.9)
Net cash used in investing activities	(48.9)	(23.9)
Cash flows from financing activities		
Proceeds from issue of share capital	46.6	33.0
Proceeds from issue of loans and borrowings	44.4	23.5
Repayment of loans and borrowings	(59.1)	(54.8)
Distributions paid to Company shareholders	(14.8)	(10.9)
Distributions paid to minorities	(2.0)	(1.1)
Net cash from/(used in) financing activities	15.1	(10.3)
Net decrease in cash and cash equivalents	(2.2)	(6.3)
Cash and cash equivalents at beginning of period	67.1	54.2
Exchange gains on cash	1.7	1.7
Cash and cash equivalents at end of period	66.6	49.6

The notes on pages 29 to 35 form an integral part of the financial statements.

Notes to the condensed unaudited consolidated financial statements

for the six months ended 30 September 2010

1. Reporting entity

HSBC Infrastructure Company Limited (the "Company") is a company domiciled in Guernsey, Channel Islands, whose shares are publicly traded on the London Stock Exchange. The interim condensed unaudited consolidated financial statements of the Company (the "interim statements") as at and for the six months ended 30 September 2010 comprise the Company and its subsidiaries (together referred to as "the Group"). The Group invests in infrastructure projects in the UK and Europe.

Certain items of the accounting policies apply only to those investments of the Group which are classified for accounting purposes as subsidiaries ("the operating subsidiaries"). Where applicable, this is noted in the relevant accounting policy note.

The statutory accounts for the year ended 31 March 2010 were approved by the Directors on 24 May 2010 and are available from the Company's Administrator and on the Company's website www.hicl.hsbc.com. The auditor's report on these accounts was unqualified.

2. Key accounting policies

Basis of preparation

The interim condensed consolidated financial statements were approved by the Board of Directors on 15 November 2010.

The interim financial statements have been prepared using accounting policies in compliance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting'. The interim consolidated financial statements have also been prepared in accordance with the DTR of the UK FSA.

The interim financial statements have been prepared using the historical cost basis, except that the following assets and liabilities are stated at their fair values: derivative financial instruments and financial instruments classified at fair value through profit or loss. The interim statements are presented in Sterling, which is the parent company's functional currency.

The Directors are of the opinion that the Group is engaged in a single segment of business being investment in infrastructure which is currently predominately in private finance initiative and public private partnership companies. The financial information used by the Directors and the Investment Adviser to allocate resources and manage the Group presents the business as a single segment.

The same accounting policies, presentation and methods of computation are followed in these interim statements as were applied in the preparation of the Group's financial statements for the year ended 31 March 2010, except for the adoption of new standards, noted below. Adoption of these standards did not have any effect on the financial position or performance of the Group.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – This interpretation provides guidance on accounting for hedges of net investments in foreign operations in an entity's consolidated financial statements.
- IFRS 3 Business Combinations – The revised standard continues to apply the acquisition method to business combinations, however, all payments to purchase a business are to be recorded at fair value at the acquisition date, some contingent payments are subsequently re-measured at fair value through income, goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest, and all transaction costs are expensed.
- IAS 27 Consolidated and Separate Financial Statements – the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control; any remaining interest in an investee is re-measured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost.
- IFRIC 17 Distributions of Non-cash Assets to Owners – Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative).
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. Clarifies how the principles underlying hedge accounting should be applied in particular situations.
- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues. Requires rights issues denominated in a currency other than the functional currency of the issuer to be classified as equity regardless of the currency in which the exercise price is denominated.
- IFRIC 18 Transfer of Assets from Customers – which is applicable for annual periods commencing on or after 1 November 2009. Clarifies the requirements for IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

Supplementary information has been provided analysing the income statement between those items of a revenue nature and those of a capital nature, in order to better reflect the Group's activities as an investment company. Those items of income and expenditure which relate to the interest and dividend yield of investments and annual operating and interest expenditure are shown as "revenue". Those items of income and expenditure which arise from changes in the fair value of investments, foreign exchange movements, finance receivables and derivative financial instruments are recognised as "capital".

The Group's financial performance does not suffer materially from seasonal fluctuations.

Comparatives

Certain investment activities on the face of the consolidated cash flow statement have been reclassified as operating activities to better reflect the nature of the business.

3. Financial instruments

Fair value hierarchy

The fair value hierarchy is defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	As at 30 September 2010			
	Level 1 £million	**Level 2** £million	**Level 3** £million	**Total** £million
Investments at fair value through profit or loss (Note 9)	27.7	–	331.5	359.2
Finance receivables at fair value through profit or loss	–	–	825.5	825.5
	27.7	–	1,157.0	1,184.7
Other financial liabilities (fair value of derivatives)	–	113.9	–	113.9
	–	113.9	–	113.9

	As at 31 March 2010			
	Level 1 £million	**Level 2** £million	**Level 3** £million	**Total** £million
Investments at fair value through profit or loss (Note 9)	24.8	–	282.6	307.4
Finance receivables at fair value through profit or loss	–	–	788.6	788.6
	24.8	–	1,071.2	1,096.0
Other financial liabilities (fair value of derivatives)	–	84.9	–	84.9
	–	84.9	–	84.9

There were no transfers between Level 1 and 2 during the period.

Reconciliation of investments at fair value through profit or loss from beginning balances to the ending balances, disclosing separately changes during the period are disclosed in Note 9.

4. Services costs

	Six months ended 30 September 2010 £million	**Six months ended 30 September 2009** £million
Service costs	41.7	41.5
Amortisation of intangible assets	4.3	4.0
Other costs	1.9	0.9
	47.9	46.4

4. Services costs *(continued)*

Administrative expenses

	Six months ended 30 September 2010 £million	Six months ended 30 September 2009 £million
Audit & accounting	0.2	0.2
Management fees	0.6	0.6
Operator fees (Note 12)	3.0	2.6
Investment fees (Note 12)	0.5	0.3
Directors' fees (Note 12)	0.1	0.1
Professional fees	0.2	0.4
Project bid costs	0.7	0.4
Other fees	0.8	0.3
	6.1	4.9

5. Earnings per share and diluted earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 September 2010	Six months ended 30 September 2009
Profit attributable to equity holders of the Company	£34.3m	£19.6m
Weighted average number of ordinary shares in issue	473.1m	352.5m
Basic and diluted earnings per share	7.2 pence	5.5 pence

6. Dividends

	Six months ended 30 September 2010 £million	Six months ended 30 September 2009 £million
Amounts recognised as distributions to equity holders during the period:		
Second interim dividend for the year ended 31 March 2010 of 3.35p (2009: 3.275p) per share	15.2	11.1

The 2010 second interim dividend of £15.2m, representing 3.35 pence per share, was paid on 30 June 2010 and is included in the condensed consolidated statement of changes in shareholders' equity.

The Board approved on 10 November 2010 an interim dividend for the period ended 30 September 2010 of 3.275 pence per share (2009: 3.2 pence per share) which will result in a total distribution of £16.3m, payable by 31 December 2010. The interim dividend is offered to shareholders as a cash payment or alternatively as a scrip dividend. The interim dividend has not been included as a liability as at 30 September 2010.

	Year ending 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2008	Year ended 31 March 2007
Interim dividend for the period ending September	3.275p	3.20p	3.125p	3.05p	2.875p
Interim dividend for the period ending March		3.35p	3.275p	3.20p	3.225p
		6.55p	6.40p	6.25p	6.10p

7. Net assets

The calculation of net assets per share is based on shareholders' equity of £552.6m at 30 September 2010 and 496.3m ordinary shares in issue at that date.

8. Tax

Income tax for the six month period includes a current tax charge of £0.1m and a deferred tax charge of £2.4m (2009: current tax charge of £0.7m, deferred tax charge of £4.4m). The current period charge of £2.5m represents the best estimate of the average annual effective income tax rate expected for the full year, applied to the pre-tax income of the six month period.

Under the current system of taxation in Guernsey, the Company itself is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee of £600. Anticipated tax benefits of this type of income for the full year are reflected in computing the estimated annual effective income tax rate.

9. Investments at fair value through profit or loss

	30 September 2010 £million	31 March 2010 £million
Opening balance	307.4	280.1
Investments in the period	47.5	60.1
Accrued interest	2.0	(1.3)
Repayments in the period	(5.3)	(3.5)
Subscription obligations	0.7	1.0
Gain/(loss) on valuation	6.2	(1.8)
Investments consolidated during the period	–	(25.8)
Other movements	0.7	(1.4)
Carrying amount at period end	359.2	307.4

	30 September 2010 £million	31 March 2010 £million
Gain/(loss) on valuation as above	6.2	(1.8)
Less: transaction costs incurred	(0.3)	(0.5)
Gain/(loss) on investments	5.9	(2.3)

The gains have been included in Gains/(loss) on investments presented in the consolidated income statement as capital items.

The Kemble Water junior loan, which is classified as Level 1 in the fair value hierarchy, had a gain in valuation of £2.9m during the six months to 30 September 2010 (2010: £6.4m gain). The remaining investments were all classified as Level 3 in the fair value hierarchy.

The Investment Adviser has carried out fair market valuations of the investments as at 30 September 2010. The Directors have satisfied themselves as to the methodology used, the discount rates applied, and the valuation. The Directors have also obtained an independent opinion from a third party, with considerable expertise in valuing these type of investments, supporting the reasonableness of the valuation. The Kemble Water junior loan was valued on a market quote basis and the other investments, which are all investments in PFI/PPP projects, are valued using a discounted cashflow methodology. The valuation techniques and methodologies have been applied consistently with the prior period. Discount rates applied range from 8.4% to 10.0% (weighted average of 8.7%) (31 March 2010: 8.4% to 11.0% (weighted average 8.7%)).

The following economic assumptions were used in the discounted cashflow valuations:

UK inflation rates	2.75%
UK deposit interest rates	1% for 1.5 years to March 2012 and 4.0% thereafter
UK corporation tax rates	26%
Euro/Sterling exchange rate	0.87 for all future periods

9. Investments at fair value through profit or loss *(continued)*

The following economic assumptions for the year ended 31 March 2010 were as follows:

UK inflation rates	2.75%
UK deposit interest rates	1% for 2 years to March 2012 and 4.5% thereafter
UK corporation tax rates	28%
Euro/Sterling exchange rate	0.89 for all future periods

In June 2010 the Group completed the acquisition of a 74.9% interest in Queen Alexandra Hospital Limited from Carillion Private Finance Limited and Royal Bank Projects Investments Limited for a consideration price of £46.4m.

In September 2010 the Group completed the acquisition of an incremental 7.55% equity interest and 17.65% loan note interest in the Sussex Custodial Centre PFI project, taking its total equity interest in the project to 89.9% and loan note interest to 100%. Total consideration for these interests was £1.1m.

The Directors have analysed the shareholder rights of both projects and are of the opinion that they should be treated as investments in joint ventures in accordance with IAS 31 Interests in Joint Ventures.

10. Share capital and reserves

Issued and fully paid:	**30 September 2010** £000	**31 March 2010** £000
496,321,977 (31 March 2010: 454,301,314) ordinary shares of 0.01p each	49.6	45.4
2 Management Shares of 0.01p each	–	–
	49.6	45.4

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Management Shares carry one vote each on a poll, do not carry any right to dividends and, in winding-up, rank only for a return of the amount of the paid-up capital on such shares after return of capital on Ordinary Shares and Nominal Shares. The Management Shares are not redeemable and are accrued for and on behalf of a Guernsey Charitable Trust.

Retained reserves
Retained reserves comprise retained earnings and the balance of the share premium account, as detailed in the condensed consolidated unaudited statement of changes in shareholders' equity.

Issued share capital
In the six month period ending 30 September 2010 41.7m new ordinary shares were issued to various institutional investors at an issue price per share (before expenses) ranging between 112.5p and 115.0p (2009: 35.1m ranging between 109.9p and 115.75p).

On 30 June 2010 0.4m new ordinary shares of 0.01p each fully paid in the Company were issued as a scrip dividend alternative in lieu of cash for the second interim dividend in respect of the year ending 31 March 2010.

11. Loans and borrowings

In the six month period ending 30 September 2010 £44.4m of debt drawings (2009: £23.5m) were made to fund acquisitions. £46.6m of the net proceeds from the shares issued to institutional investors were utilised in the period to repay bank debt of the Group (2009: £33.0m).

Debt repayments and bond indexation adjustments of £56.6m were recognised in the six month period ended 30 September 2010 (2009: £60.9m).

12. Related party transactions

HSBC Specialist Fund Management Ltd ("HSFML") is the Company's Investment Adviser and the Operator of a limited partnership through which the Company holds its investments. The total Management and Advisory fees charged by HSFML to the Income Statement (disclosed as operator fees in Note 4) was £3.0m of which the balance remained payable at the period end (2009: £2.6m). The Investment fee charged by the Operator for new portfolio investments (disclosed as investment fees in Note 4) in the period was £0.5m of which the balance remained payable at the period end (2009: £0.3m).

The following summarises the transactions between the Group and its associates and joint ventures in the period:

	Transactions		Balance	
	Six months ended 30 September 2010 £million	Six months ended 30 September 2009 £million	30 September 2010 £million	31 March 2010 £million
Loanstock investments	19.6	14.9	239.8	199.9
Loanstock repayments	(1.3)	(1.3)	–	–
Equity investments	28.6	8.9	134.8	84.1
Equity amortisation	(4.0)	–	–	–
Outstanding subscription obligations	–	–	(7.5)	(8.3)
Loanstock interest	8.0	6.8	8.6	10.9
Dividends received	1.1	4.4	–	–
Fees and other income	0.8	0.5	–	–

The Group had total cash holdings with HSBC Bank plc at 30 September 2010 of £28.6m (2009: £41.6m). Total interest income earned from cash holdings held with HSBC Bank plc for the period was £0.1m (2009: £0.2m).

The Directors of the Company, who are considered to be key management, received fees for their services. Their fees were £58k (disclosed as directors' fees in Note 4) in the period (2009: £47k).

All of the above transactions were undertaken on an arm's length basis and there have been no changes in material related party transactions since the last annual report.

13. Guarantees and other commitments

As at 30 September 2010 the Group had a £7.5m commitment to subscribe to project investments (2009: £7.2m commitment). As at 30 September 2010 the Group had total capital commitments of £33.2m (2009: £11.5m) contracted for but not provided for.

14. Events after balance sheet date

HSBC Specialist Investments Limited ("HSIL"), the infrastructure and real estate arm of the HSBC Group ("HSBC") and owner of the Company's Investment Adviser, HSBC Specialist Fund Management Limited, has agreed outline terms with HSBC for a change in ownership which will lead to the business becoming independent. The arrangement will result in the infrastructure and real estate management team owning a majority share in the business, with HSBC maintaining a substantial minority holding. In November the Company's shareholders approved the change in name of the Company to "HICL Infrastructure Company Limited" when the trademark licence allowing the use of the HSBC name is terminated. The process is expected to be completed by March 2011. Also in November the Company and the Investment Adviser agreed a small change to the fee structure. For investments under management with an incremental value in excess of £750m the Investment Adviser's incremental fee is reduced to 1.0% per annum (from 1.1% per annum) with effect from 1 January 2011, provided that the assets have become operational.

In October 2010 the Group agreed to acquire an interest in two UK PFI and in two Canadian P3 projects from subsidiaries of Bilfinger Berger SE. Total consideration, including deferred investment obligations of approximately £46.1m, was approximately £65.9m at the exchange rates on signing.

The four interests are:

- a 50% interest in the Kent Schools PFI project ("Kent Schools"),
- a 41.6% indirect interest in the M80 motorway DBFO project ("M80 Motorway DBFO") currently under construction in Scotland. Through the future exercise of options rights over minority interests, this interest will increase to 49.9%,
- a 50% interest in the North-West Anthony Henday ring road P3 project ("North-West Anthony Henday P3") currently in construction in Alberta, Canada, and
- a 50% interest in the Kicking Horse Canyon Transit P3 project ("Kicking Horse Canyon P3") in British Columbia, Canada, part of the Trans-Canada Highway.

In October 2010 the Group acquired a further 15.0% equity interest and 25.1% loan note interest in the Queen Alexandra Hospital for £13.4m. This increases the Group's equity interest to 89.9% and its loan note interests to 100%.

14. Events after balance sheet date *(continued)*

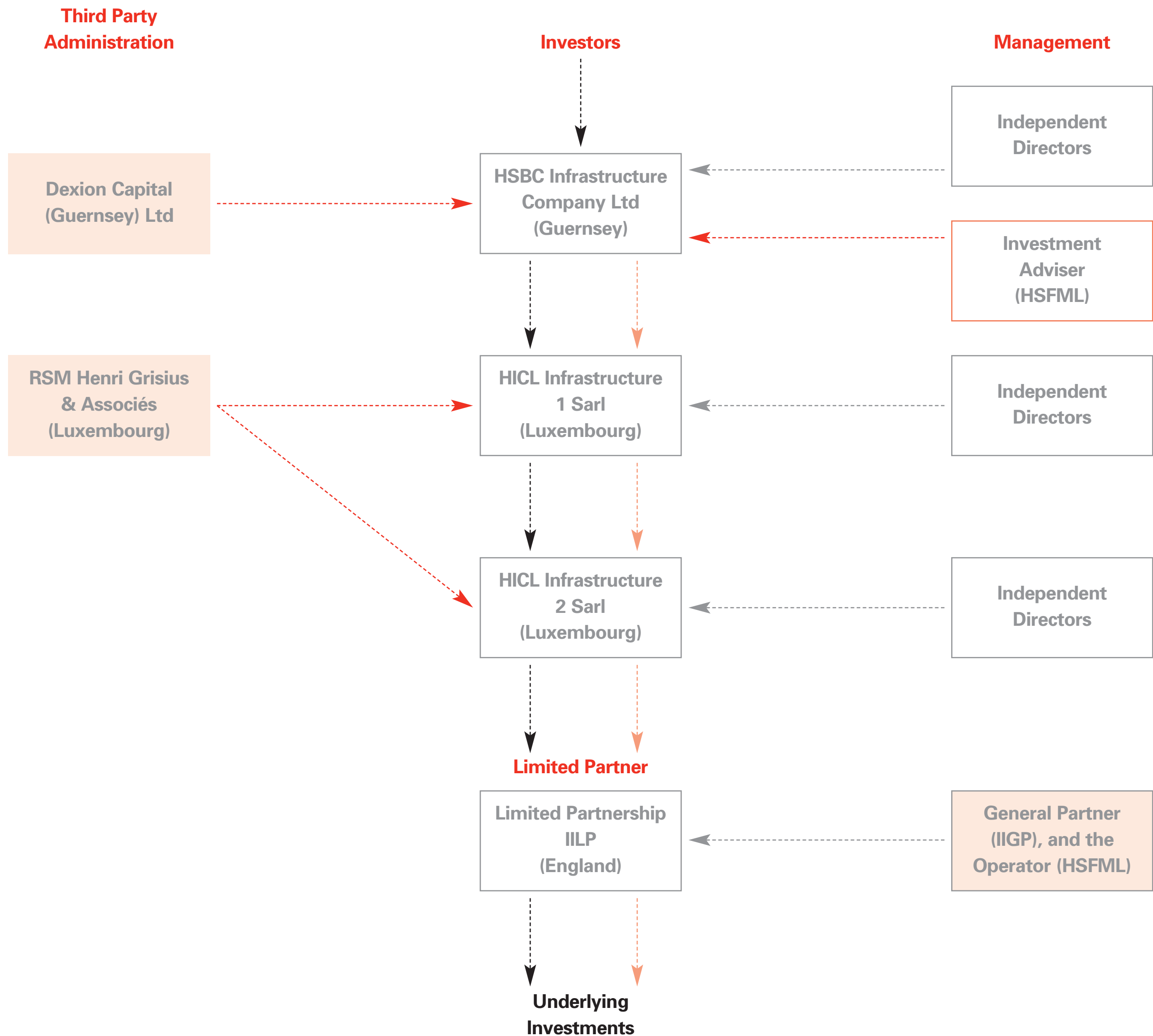
In October 2010 the Group acquired a further 39.9% equity interest and 50% loan note interest in the Oxford John Radcliffe Hospital project, for a total consideration of £13.9m. This increases the Group's equity interest to 89.9% and its loan note interests to 100%.

In November 2010 the Group announced the completion of Kent Schools PFI, North-West Anthony Henday P3 and Kicking Horse Canyon P3. The completion of the M80 Motorway DBFO is expected to occur by the end of the year once certain conditions have been met.

In November 2010 the Company announced its intention to raise a target amount of £110m (before expenses) through the Placing, Open Offer and Offer for Subscription of C shares. Shareholders of the Company, in November 2010 empowered the Company's board of directors to allot up to 150m C shares without the need to observe pre-emption rights, such authority expiring on 31 March 2011.

There were no other events after the balance sheet date which are required to be disclosed.

Group Structure



The Group invests in infrastructure investments indirectly via the above entities. The Group's infrastructure investments, the holdings in the various project companies, are registered in the name of the General Partner, Infrastructure Investments General Partner ('IIGP') or the Partnership, or wholly owned subsidiaries of the Partnership.

Directors and Advisers

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Sarah Evans
John Hallam
Chris Russell

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