

HSBC Merchant Services LLP
Annual report and financial statements
for the year ended 31 May 2011

Registered number OC337146

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HSBC Merchant Services LLP

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HSBC Merchant Services LLP

General information

Registered number OC337146

Members Global Payments UK Limited
 Global Payments UK 2 Limited

Registered address 51 De Montfort Street
 Leicester
 LE1 7BB

Lawyers Eversheds LLP
 Eversheds House
 70 Great Bridgewater St
 Manchester
 M1 5ES

Bankers HSBC Bank plc
 8 Canada Square
 London
 E14 5HQ

Auditor Deloitte LLP
 Four Brindleyplace
 Birmingham
 B1 2HZ

HSBC Merchant Services LLP

Members' report for the year ending 31 May 2011

The members present their Annual Report and the audited financial statements for the year ended 31 May 2011

Principal activity

As at the year end HSBC Merchant Services LLP ("the Partnership" or "the LLP") is a joint venture between Global Payments UK Limited and Global Payments UK 2 Limited

The Partnership's principal activity is merchant acquiring, which is the electronic transaction processing of point-of-sale payments on issued debit and credit cards

Distribution policy

The Partnership's distribution policy is that distributable profits are determined on a monthly basis. Distributions are made to members having rights to a share of profit, of which only Global Payments UK Limited qualifies, and distributed following the preparation of the month-end results. Distributable profits consist of statutory profit adjusted for amortisation cost and transfer pricing profits already taken by members. Details of distributions made in the year are as per note 17 to the financial statements

Designated members and Capital policy

The members of the LLP are Global Payments UK Limited and Global Payments UK 2 Limited. Global Payments UK 2 Limited did not participate in the LLP's profit, and holds no financial interest in the LLP. Members' capital in total is linked to the financial requirements of the LLP

Financial position and performance

The profit for the year ending 31 May 2011 was £45.2m (2010 £36.5m), as detailed on the statement of comprehensive income on page 6. The increase is due in part to consumer spending on credit card transactions which are up 11% compared to prior year, and in part due to lower operating costs arising from cost efficiency. The Partnership aims to continue the development of the business by recruiting further new merchants, and leveraging HSBC Bank plc corporate relationships within the existing customer base

Profit is not taxable within the Partnership. Taxation will be applied to the respective investor companies

Net assets as at 31 May 2011 were £372.6m (2010 £390.2m), as detailed on the balance sheet on page 9. This difference is due to distributions to members in excess of statutory profit in line with the conditions stipulated in the partnership agreement

Principal risks and uncertainties

The Partners consider that the principal area of risk is counterparty credit risk. The Partnership has counterparty credit risk management processes in place which are designed to prevent specific individual merchant loss

The Partnership's financial risk management objectives and policies are given in note 20 to the financial statements

Going concern basis

After making enquiries, and considering the forecast that the Partnership is expected to remain profitable and cash generative, the directors have formed a judgement that there is a reasonable expectation that the Partnership has adequate resources to continue in operational existence for the foreseeable future. In forming this judgement the members have considered the Partnership's ability to meet liabilities as they fall due and the letter of support provided by the ultimate parent company, Global Payments, Inc. As such the members continue to adopt the going concern basis in preparing the financial statements

HSBC Merchant Services LLP

Members' report for the year ending 31 May 2011 (continued)

Creditor payment policy

The partnership agrees terms and conditions with its suppliers. Payment is then made on the terms agreed, subject to the appropriate terms and conditions being met by the supplier. Trade creditors of the Partnership at 31 May 2011 were equivalent to 157 days (2010: 81 days).

Auditor

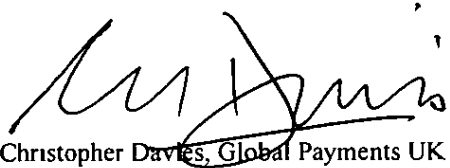
Each of the members of the partnership at the date of approval of this annual report confirms that

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. A resolution to reappointment of them will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the members



Christopher Davies, Global Payments UK Limited

15 September 2011

HSBC Merchant Services LLP

Members' responsibility statement

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

The Limited Liability Partnerships (Accounts & Audit) (Application of Companies Act 2006) Regulations 2008 require the members to prepare financial statements for each financial year. Under that law the members have elected to prepare the financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be prepared in accordance with the Companies Act 2006, as applicable to limited liability partnerships.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the firm's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, members are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The members are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the firm and enable them to ensure that the financial statements comply with the Companies Act 2006, as applicable to limited liability partnerships. They are also responsible for safeguarding the assets of the firm and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are exercised by the Board on behalf of the members.

HSBC Merchant Services LLP

Independent auditor's report For the year ended 31 May 2011

We have audited the financial statements of HSBC Merchant Services LLP ("the LLP") for the year ended 31 May 2011 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibility Statement, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the LLP's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the members, and the overall presentation of the financial statements. In addition, we read all the financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the LLP's affairs as at 31 May 2011 and of the LLP's profit for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, as applicable to limited liability partnerships.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- we have not received all the information and explanations we require for our audit.



Matthew Perkins (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Birmingham, England

16 September 2011

HSBC Merchant Services LLP

Statement of comprehensive income

For the year ended 31 May 2011

| | | Year ended 31 May 2011 £ 000's | Year ended 31 May 2010 £ 000's |
|---|------|---|---|
| | Note | | |
| Continuing operations | | | |
| Commission income | | 420,159 | 387,437 |
| Commission expense | | (276,322) | (248,181) |
| Revenue | 5 | <u>143,837</u> | <u>139,256</u> |
| Administrative and other operating expenses | | (98,662) | (102,868) |
| Operating profit | 6 | <u>45,175</u> | <u>36,388</u> |
| Investment revenue | 5, 9 | 50 | 75 |
| Comprehensive income for the year | 17 | <u><u>45,225</u></u> | <u><u>36,463</u></u> |
| Attributable to the members | | <u><u>45,225</u></u> | <u><u>36,463</u></u> |

The accompanying notes form an integral part of the financial statements

HSBC Merchant Services LLP

Statement of changes in members' equity For the year ended 31 May 2011

| | Note | Year ended 31 May 2011 £ 000's | Year ended 31 May 2010 £ 000's |
|---|------|--------------------------------------|--------------------------------------|
| Total comprehensive income for the year | | 45,225 | 36,463 |
| Distributions from profit for the year | | (45,225) | (36,463) |
| Returns of members' capital | | (17,650) | (19,964) |
| | | <hr/> | <hr/> |
| Net movement in members capital in the year | 17 | (17,650) | (19,964) |
| Members' equity at 1 June | 17 | 390,223 | 410,187 |
| | | <hr/> | <hr/> |
| Members' equity at 31 May | 17 | <u>372,573</u> | <u>390,223</u> |

HSBC Merchant Services LLP

Registered number OC337146

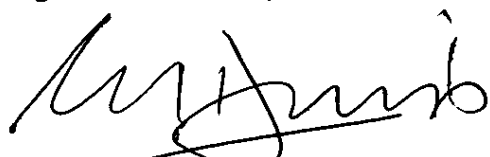
Balance sheet

As at 31 May 2011

| | Note | 2011 £ 000's | 2010 £ 000's |
|--|------|-----------------|-----------------|
| Non-current assets | | | |
| Goodwill | 10 | 291,220 | 291,220 |
| Other intangible assets | 11 | 74,154 | 89,217 |
| Property, plant and equipment | 12 | 9,688 | 6,711 |
| | | <u>375,062</u> | <u>387,148</u> |
| Current assets | | | |
| Inventories | 13 | 967 | 1,768 |
| Trade and other receivables | 14 | 42,002 | 11,823 |
| Cash and cash equivalents | 14 | 53,119 | 39,362 |
| | | <u>96,088</u> | <u>52,953</u> |
| Total assets | | <u>471,150</u> | <u>440,101</u> |
| Current liabilities | | | |
| Trade and other payables | 15 | (97,884) | (47,486) |
| Provision for liabilities | 16 | (693) | (2,392) |
| | | <u>(98,577)</u> | <u>(49,878)</u> |
| Total liabilities | | <u>(98,577)</u> | <u>(49,878)</u> |
| Net assets | | <u>372,573</u> | <u>390,223</u> |
| Members equity | | | |
| Capital account – Global Payments UK Limited | 17 | 372,573 | 390,223 |
| Total members' equity | | <u>372,573</u> | <u>390,223</u> |

The accompanying notes form an integral part of these Financial Statements

The financial statements were approved by the members and authorised for issue on 15 September 2011. They were signed on their behalf by



Christopher Davies, Global Payments UK Limited

Member

HSBC Merchant Services LLP

Cash flow statement

For the year ended 31 May 2011

| | | Year ended 31 May 2011 £ 000's | Year ended 31 May 2010 £ 000's |
|--|----|---|---|
| Net cash from operating activities | 18 | 91,724 | 83,241 |
| Investing activities | | | |
| Interest received | | 50 | 75 |
| Purchase of property, plant and equipment | | (6,521) | (4,510) |
| Purchase of intangible assets | | (2,684) | - |
| Net cash used in investing activities | | (9,155) | (4,435) |
| Financing activities | | | |
| Distributions and repayments of capital to members, paid and committed | | (62,875) | (56,427) |
| Decrease in distributions payable | | (5,937) | (817) |
| Net cash outflow from financing activities | | (68,812) | (57,244) |
| Net increase in cash and cash equivalents | | 13,757 | 21,562 |
| Cash and cash equivalents at beginning of year | | 39,362 | 17,800 |
| Cash and cash equivalents at end of year | | 53,119 | 39,362 |

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

1. General information

HSBC Merchant Services LLP is a Limited Liability Partnership registered in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Partnership's operations and its principal activities are set out in the Members' report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Partnership operates.

2. Adoption of new and revised Standards

The Partnership has elected to adopt International Financial Reporting Standards as applied in the EU in force as at the balance sheet date of 31 May 2011.

The following standards and interpretations had been issued but not endorsed by the EU at 31 May 2011 and have not therefore been applied in the preparation of the accounts:

IAS 1 (Amendment) Presentation of Items of Other Comprehensive Income

IAS 12 (Amendment) Deferred Tax Recovery of Underlying Assets

IAS 19 (Revised) Employee Benefits

IAS 27 (Revised) Separate Financial Statements

IFRS 7 (Amendment) Disclosures – Transfers of Financial Assets

IFRS 9 Financial Instruments

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IFRS 13 Fair Value Measurement

3. Significant accounting policies

Basis of accounting

The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Going concern basis

After making enquiries, and considering the forecast that the Partnership is expected to remain profitable and cash generative, the directors have formed a judgement that there is a reasonable expectation that the Partnership has adequate resources to continue in operational existence for the foreseeable future. In forming this judgement the members have considered the Partnership's ability to meet liabilities as they fall due and the letter of support provided by the ultimate parent company, Global Payments, Inc. As such the members continue to adopt the going concern basis in preparing the financial statements.

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

3. Significant accounting policies (continued)

Distribution policy

The Partnership's distribution policy is that distributable profits are determined on a month basis. Distributions are made to members having rights to a share of profit, of which only Global Payments UK Limited qualifies at the balance sheet date, and distributed following the preparation of the month-end results. Distributable profits consist of statutory profit adjusted for amortisation cost and transfer pricing profits already taken by members.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Partnership's interest in the fair value of the identifiable assets and liabilities at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. Further details on the method of review are given in note 10.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, commissions, VAT and other sales-related taxes.

Sales of services are recognised at month end on an accruals basis, whilst sales of goods are recognised when risks and rewards of ownership have passed to the buyer.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign currencies

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, financial assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-financial assets and liabilities items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. In the event that there are differences between amounts paid and payable they are recognised as accruals or prepayments in the balance sheet.

Property, plant and equipment

Fixtures and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|------------------------|-----------|
| Terminal Estate | 25% |
| Fixtures and equipment | 20% - 50% |

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other income.

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

3 Significant accounting policies (continued)

Intangible assets

Intangible assets are amortised over their estimated useful economic lives, and further impaired if necessary. The amortisation period for software and software development costs is 7 years, in line with the useful economic life. All other classes of intangible are amortised over their estimated useful lives, which is on average 5 years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the LLP reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the partnership estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial Instruments

The Partnership has applied IAS 32, Financial instruments: Disclosure and presentation and IAS 39 Financial instruments: Recognition and measurement as outlined below.

Trade Receivables

Trade receivables do not carry interest and are stated at initial recognition at their fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

Trade and other payables

Trade and other payables are not interest bearing and are stated at initial recognition at their fair value and subsequently at amortised cost.

Operating profit

Operating profit is stated before interest and other income and finance costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Operating leases

When acting as lessor the partnership includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the equipment is thereby impaired.

Rentals payable under operating lessees in the partnership's capacity as lessee are charged to income on a straight-line basis over the term of the relevant lease. Any benefits received and receivable as an incentive to enter an operating lease are also spread on a straight-line basis over the lease term.

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

3 Significant accounting policies (continued)

Inventories

Inventories comprise terminals used by the merchants in the processing of transactions. Upon being leased out to a merchant these are transferred to the terminal estate within property, plant and equipment. They are stated at the lower of cost and net realisable value. Cost is calculated using the first in first out method.

Provision for liabilities

Provisions are recognised when the Partnership has a present obligation as a result of a past event, and it is probable that the Partnership will be required to settle that obligation. Provisions are measured at the Members' best estimate of the expenditure required to settle the obligation at the balance sheet date.

4 Critical accounting estimates

In the application of the Partnership's accounting policies, which are described in note 3, the Members' are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The goodwill on acquisition reflected the market value of the business. The Partners consider the value to be upheld taking into account expected future cash flows of the business.

Likewise, the cost of intangible assets reflected the value to the business at acquisition. This is spread over the expected useful life of the underlying assets with further impairment made if necessary. At each balance sheet date, the LLP reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the LLP estimates the recoverable amount of the cash-generating unit to which the asset belongs.

A significant risk to the business arises from chargebacks. Mitigation is undertaken from the point a merchant is onboarded through credit checking, with varying degrees of due diligence dependant upon the level of chargeback exposure and the industry sector. All merchants continue to be monitored via merchant deposit monitoring and chargeback monitoring.

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

5 Revenue

An analysis of the Partnership's revenue is as follows

| | Year ended 31 May 2011 £ 000's | Year ended 31 May 2010 £ 000's |
|--------------------------------|---|---|
| Continuing operations | | |
| Gross merchant services charge | 388,196 | 358,467 |
| Less interchange expense | (276,322) | (248,181) |
| Net merchant services charge | 111,874 | 110,286 |
| Equipment leasing income | 18,032 | 17,512 |
| Other commission income | 13,931 | 11,458 |
| | <u>143,837</u> | <u>139,256</u> |
| Investment income | 50 | 75 |

All revenues and profit before tax are attributable to the Partnership's principal activity

6. Operating Profit

Profit for the year has been arrived at after charging

| | Year ended 31 May 2011 £ 000's | Year ended 31 May 2010 £ 000's |
|---|---|---|
| Depreciation of property, plant and equipment | 3,453 | 3,816 |
| Loss on disposal of property, plant and equipment | 92 | 53 |
| Amortisation of intangible assets | 17,746 | 20,525 |
| Staff costs | 20,341 | 18,552 |
| Operating lease payments | 1,104 | 1,363 |

7. Auditor's remuneration

The analysis of auditor's remuneration is as follows

| | Year ended 31 May 2011 £ 000's | Year ended 31 May 2010 £ 000's |
|--|---|---|
| Fees payable to the LLP's auditor for the audit of the LLP's annual accounts | <u>165</u> | <u>163</u> |

8. Staff costs

The Partnership has no employees, with all services being provided by staff employed by Global Payments UK Limited, and the costs recharged to the Partnership on a monthly basis. The total recharge in relation to staff cost is £20,341,000 (2010 £18,552,000)

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

9. Investment revenue

| | Year ended 31 May 2011 £ 000's | Year ended 31 May 2010 £ 000's |
|---------------------------|---|---|
| Interest on bank deposits | 50 | 75 |

10 Goodwill

| | 2011 £ 000's |
|--|-----------------|
| Cost and net realisable value At 1 June 2009, 31 May 2010 and 31 May 2011 | 291,220 |
| Acquired | - |
| At 1 June 2009, 31 May 2010 and 31 May 2011 | <u>291,220</u> |

Goodwill recognised relates to the acquisition of the trade and assets of the HSBC Merchant Services division from HSBC Bank plc on 1 July 2008

The Partnership tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. No impairment was identified in the reporting year (2010: £nil)

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates (2011: 11.5%, 2010: 12.5%), growth rates (2011: 3.2-5.2% per year, 2010: 3-6% per year) and year over which cash flows are considered (2011: 5 years, 2010: 5 years)

The LLP prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rates

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

11 Other intangible assets

Prior Year

| | Trade name £ 000's | Customer relationships £ 000's | Customer contacts £ 000's | Distribution channels £ 000's | Software £ 000's | Total £ 000's |
|------------------------|-----------------------|-----------------------------------|------------------------------|----------------------------------|---------------------|------------------|
| Cost | | | | | | |
| At 31 May 2009 | 2,171 | 115,056 | 485 | 12,746 | - | 130,458 |
| Acquired | - | - | - | - | - | - |
| At 31 May 2010 | 2,171 | 115,056 | 485 | 12,746 | - | 130,458 |
| Amortisation | | | | | | |
| At 31 May 2009 | 398 | 17,832 | 127 | 2,359 | - | 20,716 |
| Charge for the year | 434 | 16,267 | 139 | 3,685 | - | 20,525 |
| At 31 May 2010 | 832 | 34,099 | 266 | 6,044 | - | 41,241 |
| Carrying amount | | | | | | |
| At 31 May 2009 | 1,773 | 97,224 | 358 | 10,387 | - | 109,742 |
| At 31 May 2010 | 1,339 | 80,957 | 219 | 6,702 | - | 89,217 |

Current Year

| | Trade name £ 000's | Customer relationships £ 000's | Customer contacts £ 000's | Distribution channels £ 000's | Software £ 000's | Total £ 000's |
|--------------------------|-----------------------|-----------------------------------|------------------------------|----------------------------------|---------------------|------------------|
| Cost | | | | | | |
| At 31 May 2010 | 2,171 | 115,056 | 485 | 12,746 | - | 130,458 |
| Acquired during the year | - | - | - | - | 2,684 | 2,684 |
| At 31 May 2011 | 2,171 | 115,056 | 485 | 12,746 | 2,684 | 133,142 |
| Amortisation | | | | | | |
| At 31 May 2010 | 832 | 34,099 | 266 | 6,044 | - | 41,241 |
| Charge for the year | 434 | 13,875 | 139 | 3,202 | 97 | 17,746 |
| At 31 May 2011 | 1,266 | 47,974 | 405 | 9,246 | 97 | 58,987 |
| Carrying amount | | | | | | |
| At 31 May 2010 | 1,339 | 80,957 | 219 | 6,702 | - | 89,217 |
| At 31 May 2011 | 905 | 67,082 | 80 | 3,500 | 2,587 | 74,154 |

Other intangible assets acquired in the period relate to software and software development costs associated to transaction processing systems

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

12 Property, plant and equipment

| Prior Year | Terminal estate £ 000's | Other fixtures and equipment £ 000's | Total £ 000's |
|--|-------------------------------|--|------------------|
| Cost | | | |
| At 31 May 2009 | 10,625 | 7 | 10,632 |
| Additions | 4,153 | 357 | 4,510 |
| Disposals | (1,933) | - | (1,933) |
| At 31 May 2010 | <u>12,845</u> | <u>364</u> | <u>13,209</u> |
| Accumulated depreciation and impairment | | | |
| At 31 May 2009 | 4,561 | 1 | 4,562 |
| Charge for the year | 3,815 | 1 | 3,816 |
| Disposals | (1,880) | - | (1,880) |
| At 31 May 2010 | <u>6,496</u> | <u>2</u> | <u>6,498</u> |
| Carrying amount | | | |
| At 31 May 2009 | <u>6,349</u> | <u>6</u> | <u>6,070</u> |
| At 31 May 2010 | <u>6,349</u> | <u>362</u> | <u>6,711</u> |
| Current Year | | | |
| | Terminal estate £ 000's | Other fixtures and equipment £ 000's | Total £ 000's |
| Cost | | | |
| At 31 May 2010 | 12,845 | 364 | 13,209 |
| Additions | 5,238 | 1,283 | 6,521 |
| Disposals | (250) | - | (250) |
| At 31 May 2011 | <u>17,833</u> | <u>1,647</u> | <u>19,480</u> |
| Accumulated depreciation and impairment | | | |
| At 31 May 2010 | 6,496 | 2 | 6,498 |
| Charge for the year | 3,365 | 88 | 3,453 |
| Disposals | (159) | - | (159) |
| At 31 May 2011 | <u>9,702</u> | <u>90</u> | <u>9,792</u> |
| Carrying amount | | | |
| At 31 May 2010 | <u>6,349</u> | <u>362</u> | <u>6,711</u> |
| At 31 May 2011 | <u>8,131</u> | <u>1,557</u> | <u>9,688</u> |

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

12. Property, plant and equipment (continued)

At 31 May 2011, the Partnership had entered into contractual commitments for the acquisition of equipment amounting to £2.4m (2010 £0.2m)

13. Inventories

| | 2011 £ 000's | 2010 £ 000's |
|--------------------|-----------------|-----------------|
| Terminals | 911 | 1,712 |
| Other sundry items | 56 | 56 |
| | <u>967</u> | <u>1,768</u> |

No inventories are impaired at the year end (2010 £nil)

14. Other financial assets

Trade and other receivables

| | 2011 £ 000's | 2010 £ 000's |
|---|-----------------|-----------------|
| Amounts receivable for the sale of goods and services | 41,492 | 11,610 |
| Trade receivables | 41,492 | 11,610 |
| Other receivables | 341 | 150 |
| Prepayments | 169 | 63 |
| | <u>42,002</u> | <u>11,823</u> |

Trade receivables

Total trade receivables held by the LLP at 31 May 2011 amounted to £41.5m (2010 £11.6m), none of which were past due or impaired (2010 none). The members consider that the carrying amount of trade receivables approximates to their fair value.

Trade receivables of the LLP at 31 May 2011 were equivalent to 36 days (2010 30 days) of sales/commissions.

Cash and cash equivalents

| | 2011 £ 000's | 2010 £ 000's |
|---------------------------|-----------------|-----------------|
| Cash and cash equivalents | <u>53,119</u> | <u>39,362</u> |

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value. £35.7m (2010 £16.8m) is merchant's cash held as security.

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

15. Other financial liabilities

Trade and other payables

| | 2011 £ 000's | 2010 £ 000's |
|---|-----------------|-----------------|
| Trade creditors and accruals | 24,572 | 13,319 |
| Customer deposits | 35,723 | 20,134 |
| Net settlement processing payables | 30,759 | - |
| Due to Global Payments UK Limited – trade payables | 204 | 1,470 |
| Due to Global Payments UK Limited – distribution payables | 6,626 | 12,563 |
| | <u>97,884</u> | <u>47,486</u> |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Partnership has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The members consider that the carrying amount of trade payables approximates to their fair value.

Trade creditors of the partnership at 31 May 2011 were equivalent to 157 days (2010 – 81 days) of purchases.

All financial liabilities in the above table are payable within three months of the balance sheet date.

Net settlement processing payables

| | 2011 £ 000's | 2010 £ 000's |
|--|-----------------|-----------------|
| Interchange reimbursement | (35,526) | - |
| Liability to Card scheme member | 65,864 | - |
| Exception items | (1,409) | - |
| Fair value of guarantees of customer chargebacks | (292) | - |
| Merchant reserves | 2,122 | - |
| | <u>30,759</u> | <u>-</u> |

All settlement balances now pass through the LLP balance sheet. This follows a net settlement process whereby, the card scheme member's funding obligation to the merchant precedes the incoming amount from the card networks. The amount of the card scheme member's net receivable position is satisfied by the card scheme member's own funds which represents a liability for the LLP. The exception items relate to customer chargebacks and transaction reject amounts receivable from merchants. This process was completed by HSBC on behalf of the LLP in the prior year.

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

16. Provision for liabilities

| | 2011 £ 000's | 2010 £ 000's |
|---|-----------------|-----------------|
| Balance at the beginning of the year | 2,392 | 425 |
| Provision utilised during the year | (3,410) | (125) |
| Provision released during the year | (1,231) | (300) |
| Transactions provided against during the year | 2,942 | 2,392 |
| | <u>693</u> | <u>2,392</u> |
| Balance at the end of the year | <u>693</u> | <u>2,392</u> |

This provision relates to the risk that the Partnership may be liable for the chargebacks of transactions on merchants who are potentially unable to meet the chargeback demand themselves. All provisions are expected to be settled within six months of the year end.

17. Member's interests

| | Global Payments UK Limited £ 000's | HSBC Bank plc £ 000's | Total £ 000's |
|---|---|-----------------------------|------------------|
| Capital account as at 31 May 2009 | 209,153 | 201,034 | 410,187 |
| Acquired by Global Payments UK Limited on 12 June 2010 | 200,771 | (200,771) | - |
| Statutory profit for the year | 35,978 | 485 | 36,463 |
| Distributions, paid and committed, of statutory profit for the year | (35,978) | (485) | (36,463) |
| Distributions, paid and committed, of equity during the year | (19,701) | (263) | (19,964) |
| | <u>390,223</u> | <u>-</u> | <u>390,223</u> |
| Capital balance as at 31 May 2010 | 390,223 | - | 390,223 |
| Statutory profit for the year | 45,225 | - | 45,225 |
| Distributions, paid and committed, of statutory profit for the year | (45,225) | - | (45,225) |
| Distributions, paid and committed, of equity during the year | (17,650) | - | (17,650) |
| | <u>372,573</u> | <u>-</u> | <u>372,573</u> |
| Capital balance as at 31 May 2011 | <u>372,573</u> | <u>-</u> | <u>372,573</u> |

Global Payments UK 2 Limited is a non equity holding member of HSBC Merchant Services LLP. As such it has no capital account and receives no distributions from the partnership.

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

18. Notes to the cash flow statement

| | Year ended 31 May 2011 £ 000's | Year ended 31 May 2010 £ 000's |
|--|---|---|
| Operating profit | 45,175 | 36,388 |
| Adjustments for | | |
| Depreciation of property, plant and equipment | 3,453 | 3,816 |
| Loss on disposal of plant, property and equipment | 92 | 53 |
| Amortisation of intangible assets | 17,746 | 20,525 |
| (Decrease)/increase in provisions | (1,699) | 1,967 |
| Operating cash flows before movements in working capital | 64,767 | 62,749 |
| Decrease/(increase) in inventories | 801 | (439) |
| (Increase)/decrease in trade receivables | (30,179) | 2,574 |
| Increase in trade payables | 56,335 | 18,357 |
| Net cash from operating activities | 91,724 | 83,241 |

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

19. Operating lease arrangements

The Partnership as lessee

| | 2011 £ 000's | 2010 £ 000's |
|--|-----------------|-----------------|
| Minimum lease payments under operating leases recognised as an expense in the year | 1,104 | 1,363 |

At the balance sheet date, the LLP had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

| | 2011 £ 000's | 2010 £ 000's |
|--|-----------------|-----------------|
| Within one year | 1,611 | 1,049 |
| In the second to fifth years inclusive | 2,445 | 3,287 |
| | <u>4,056</u> | <u>4,336</u> |

Operating lease payments represent rentals payable for the leasing of office space. Leases are negotiated for an average term of five years.

The Partnership as lessor

At the balance sheet date, the Partnership had contracted with merchants for the following future minimum lease payments

| | 2011 £ 000's | 2010 £ 000's |
|-----------------|-----------------|-----------------|
| Within one year | 1,503 | 1,459 |

These leasing arrangements relate to the hire of point of sale terminals used in the processing of point-of-sale payments on issued debit and credit cards

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

20. Risk management

The Partnership's risk management activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks

The most significant risks arising are credit risk, liquidity risk and market risk. Market risk comprises primarily foreign exchange risk

The Partnership has fraud management policies in place throughout the organisation

The management of these risks in relation to the merchant acquiring business is discussed below

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. With specific regard to merchant acquiring, it arises primarily from the risk of chargebacks. The Partnership has standards, policies and procedures dedicated to monitoring and managing risk

The Partnership's credit risk is managed using the following methodology

| Task | Purpose |
|----------|---|
| Identify | Investigate and understand the merchant's business, products and terms of trade |
| Monitor | Monitor material changes in exposure for the extant book |
| Assess | Calculate the card acquiring chargeback risk based upon the identified risks |
| Address | Balance risk and reward, structure the facility and reach a credit decision |

The risk calculation is driven by the assessment of the proportion of the merchant's annual card turnover that relates to specific factors such as prepayments, continuing services and Cardholder Not Present transactions

The maximum exposure to credit risk on financial assets at 31 May 2011 was £2,508m (2010 £2,189m) following the risk transfer from HSBC Bank plc to the LLP

Where appropriate the Partnership's credit and risk department works in conjunction with and alongside the HSBC Bank plc's credit and risk function to assess, address and manage merchant-related risk and monitor exposure as part of the Partnership's wider customer portfolio risk management

Market risk management

The Partnership's balance sheet at 31 May 2011 primarily comprises assets and liabilities denominated in Sterling and is not exposed significantly to currency risk

The carrying amounts of the Partnership's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows

| | Assets 2011 £ 000's | Assets 2010 £ 000's |
|------|---------------------------|---------------------------|
| Euro | <u>864</u> | <u>47</u> |

The Partnership is not exposed to any significant levels of interest rate risk

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the members, who have built an appropriate liquidity risk management framework for the management of short, medium and long-term funding and liquidity management requirements. The Partnership manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities

HSBC Merchant Services LLP

Notes to the financial statements (continued)

For the year ended 31 May 2011

21. Related party transactions

Transactions between the Partnership and its associates are disclosed below

The ultimate parent is Global Payments, Inc , a company incorporated in the United States of America The immediate parent undertaking is Global Payments UK Limited, a company incorporated in England and Wales

The parent undertakings of the largest and smallest groups in which the Partnership is consolidated are Global Payments, Inc and Global Payments UK Limited respectively Copies of these consolidated financial statements may be obtained from Global Payments, Inc , 10 Glenlake Parkway, North Tower, Atlanta, Georgia 30328 and Global Payments UK Limited, 51 De Montfort Street, Leicester, LE1 7BB

Trading transactions

During the year, the Partnership entered into the following trading transactions with related parties

| | Sale of goods and services | | Purchase of goods and services | | Amounts owed by related parties | | Amounts owed to related parties | |
|----------------------------|----------------------------|------|--------------------------------|--------|---------------------------------|------|---------------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | £ | £ | £ | £ | £ | £ | £ | £ |
| Global Payments UK Limited | - | - | 20,781 | 17,688 | - | - | 6,830 | 14,033 |
| HSBC Bank plc | - | - | - | 1,606 | - | - | - | - |

Global Payments UK Limited and Global Payments UK 2 Limited are related parties of the Partnership as at 31 May 2011 HSBC Bank plc was a related party until 12 June 2010

The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received No provisions have been made for doubtful debts in respect of the amounts owed by related parties