

**HSBC Actuaries and Consultants Limited**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2005**

**REGISTERED NO. 676122**



**HSBC ACTUARIES AND CONSULTANTS LIMITED****REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2005**

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

**Principal activities**

The principal activities of the Company are financial management services, in particular pensions consultancy. No change in the Company's activities is anticipated.

**Results and dividends**

The Company's results for the year under review are as detailed in the statement of profit and loss shown in these accounts.

During the year a dividend of £1,800,000 (2004 Nil) was paid.

**Business review**

The Company's results were satisfactory.

**Directors**

The Directors who served during the year were as follows:

<b>Name</b>	<b>Appointed</b>
A M M Dixon (Chairman)	
A S Fishman (Chief Executive)	
J A C Bonnett	
D E Clare	
D A Clow	
T Kemp	
D Lackenby	
R A R Mattingly	
A Meikle	
D G Parker	
M J Paul	
S P Robinson	10 May 2005

# HSBC ACTUARIES AND CONSULTANTS LIMITED

## Report of the Directors for the year ended 31 December 2005 (continued)

### Directors' interests

All the directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, required to be disclosed under the Companies Act 1985, are set out below with the exception of A M M Dixon whose interests are disclosed in the accounts of HSBC Insurance Holdings Limited:

	HSBC Holdings plc Ordinary shares of US\$0.50 each	
	1 January 2005 (or appointment date)	31 December 2005
A S Fishman (Chief Executive)	960	4,199
J A C Bonnett	7,973	8,314
D E Clare	4,844	5,232
D A Clow	5,210	5,581
T Kemp	11,147	28,037
D Lackenby	9,880	10,302
R A R Mattingly	5	5
A Meikle	8,821	10,001
D G Parker	3,758	4,096
M J Paul	10,467	9,576
S P Robinson	1,766	1,766

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

	Granted	Exercised
A S Fishman (Chief Executive)	2,474	2,798
T Kemp	-	16,679
A Meikle	1,418	2,798
D G Parker	-	-
M J Paul	567	1,119

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

### Employment of disabled persons

The Company is committed to providing equal opportunities to employees. The employment of disabled persons is included in this commitment and the recruitment, training, career development and promotion of disabled persons is based on the aptitudes and abilities of the individual. Should employees become disabled during employment, every effort would be made to continue their employment and, if necessary, appropriate training would be provided.

**HSBC ACTUARIES AND CONSULTANTS LIMITED****Report of the Directors for the year ended 31 December 2005 (continued)****Employment policy**

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance through management channels, electronic communication and by way of attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. All staff participate in bonus schemes which are, in part, based on the performance of the Company.

**Supplier payment policy**

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

It is Company practice to organise payment to its suppliers through a central purchasing unit operated by HSBC Insurance Brokers Limited. The payment performance of this unit is incorporated within the results of that company.

**HSBC ACTUARIES AND CONSULTANTS LIMITED****Report of the Directors for the year ended 31 December 2005 (continued)****Statement of directors' responsibilities in relation to financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law to present fairly the financial position and the performance of the company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and prevent and detect fraud and other irregularities.

By order of the Board



David Parker  
Director

Date: 2 March 2006

**Registered Office:**

8 Canada Square  
London  
E14 5HQ

**HSBC ACTUARIES AND CONSULTANTS LIMITED****REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF HSBC ACTUARIES AND CONSULTANTS LIMITED**

We have audited the financial statements of HSBC Actuaries and Consultants Limited for the year ended 31 December 2005 which comprise the income statement, the balance sheet, the cash flow statement, statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities set out on page 4 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

**Basis of audit opinion**

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

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

**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor

2 March 2006

## HSBC ACTUARIES AND CONSULTANTS LIMITED

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 £000	2004 £000
Revenue		31,928	29,366
Operating expenses	2	(29,571)	(26,862)
<b>Operating profit before financing costs</b>		<b>2,357</b>	<b>2,504</b>
Financial income	3	857	643
Financial expenses	5	(11)	(13)
<b>Net financing costs</b>		<b>846</b>	<b>630</b>
<b>Profit on ordinary activities before taxation</b>		<b>3,203</b>	<b>3,134</b>
Tax on profit on ordinary activities	8	(877)	(1,169)
<b>Profit for the financial year</b>		<b>2,326</b>	<b>1,965</b>

The profit for the financial year is fully attributable to the equity holders of the parent.

**STATEMENT OF RECOGNISED INCOME AND EXPENSE  
FOR THE YEAR ENDED 31 DECEMBER 2005**

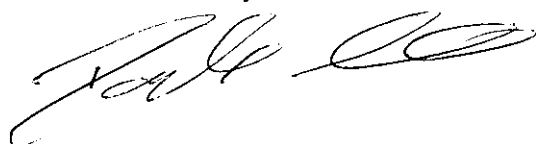
	2005 £000	2004 £000
Profit for the year	2,326	1,965
<b>Total recognised income and expense for the period</b>	<b>2,326</b>	<b>1,965</b>

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## COMPANY BALANCE SHEET AT 31 DECEMBER 2005

	Note	2005 £000	2004 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	9	8,825	-
Property, plant and equipment	10	108	166
Investments in subsidiary undertakings	11	325	105
Deferred tax assets	16	398	281
<b>Total non-current assets</b>		<b>9,656</b>	<b>552</b>
<b>Current assets</b>			
Trade and other receivables	12	14,266	9,662
Cash and cash equivalents	13	26,438	20,963
<b>Total current assets</b>		<b>40,704</b>	<b>30,625</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	(22,241)	(12,899)
Provisions	15	(1,774)	(1,519)
<b>Total current liabilities</b>		<b>(24,015)</b>	<b>(14,418)</b>
<b>Net current assets</b>		<b>16,689</b>	<b>16,207</b>
<b>Total assets less current liabilities</b>		<b>26,345</b>	<b>16,759</b>
<b>Non-current liabilities</b>			
Provisions	15	(880)	(987)
Deferred tax liability	16	-	(73)
<b>Total non-current liabilities</b>		<b>(880)</b>	<b>(1,060)</b>
		<b>25,465</b>	<b>15,699</b>
<b>Equity</b>			
Issued Share Capital	17	18,750	9,750
Retained Earnings	23	6,715	5,949
Total equity attributed to the equity holders of the parent		<b>25,465</b>	<b>15,699</b>

The financial statements were approved by the Board of Directors on 2 March 2006 and were signed on its behalf by:



Douglas Clow  
Finance Director



## HSBC ACTUARIES AND CONSULTANTS LIMITED

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 £000	2004 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	7,637	7,146
Interest received		857	643
Interest paid		(11)	(13)
Taxation paid		(1,118)	(1,125)
Net cash generated from operating activities		7,365	6,651
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary	11	(9,045)	-
Proceeds from sale of property, plant and equipment		-	95
Acquisition of property, plant and equipment		(45)	(68)
Net cash from investing activities		(9,090)	27
<b>Cash flow from financing activities</b>			
Proceeds from the issue of share capital	17	9,000	-
Dividends Paid		(1,800)	-
Net cash from financing activities		7,200	-
<b>Net increase in cash and cash equivalents</b>		<b>5,475</b>	<b>6,678</b>
Cash and cash equivalents at 1 January		20,963	14,285
<b>Cash and cash equivalents at 31 December</b>		<b>26,438</b>	<b>20,963</b>

# HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

HSBC Actuaries and Consultants Limited is a company incorporated in the United Kingdom.

The financial statements were authorised for issue by the directors on 2 March 2006.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

#### a) Basis of Preparation

The financial statements have been prepared, and approved by the directors, in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB), as endorsed by the European Union.

The company's financial statements were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) until 31 December 2004. Consequently certain accounting, valuation and presentational methods previously applied under UK GAAP have been amended to comply with IFRS. The comparative figures in respect of 2004 are restated to reflect these adjustments.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided below.

The financial statements are presented in pounds sterling.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to Adopted IFRSs.

#### Transition to IFRS

The Company adopted IFRS on 1 January 2005, accordingly the Company's financial statements for the year ended 31 December 2005 will be the first financial statements to comply with IFRS. The Company has prepared its opening IFRS balance sheet as at 1 January 2004, being the effective date of transition to IFRS.

Transitional provisions for the first time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Reporting Standards". IFRS 1 allows companies adopting IFRS's for the first time to apply certain exemptions from the full retrospective application of IFRS. The relevant exemptions available to the Company and its options selected are as follows:-

#### a) Business combinations exemption

Business combinations that took place prior to the 1 January 2004 transition date have not been restated and are included in the results at their book value as at that date.

#### b) Financial instruments

A first time adopter of IFRS is permitted to apply IAS 32, "Financial Instruments: Disclosure and Presentation", and IAS 39, "Financial Instruments: Recognition and Measurement", prospectively from 1 January 2005. The Company has elected to take this exemption, as a result no restatement of the 2004 results has been made in respect of these standards.

# HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

### c) Share-based payment transaction exemption

The Company has adopted IFRS 2 "Share-based payments", for all employee share awards granted since 7 November 2002. As permitted under IFRS 2, no adjustment is made for awards granted prior to that date.

### Restatement summary

	Net Income	Equity	
	31 December 2004	1 January 2004	31 December 2004
<b>As previously presented under UK GAAP</b>	30	13,579	13,609
Reversal of ordinary dividends payable	1,800	-	1,800
Recognition of Share based payments	(155)	-	-
Treatment of Pension Prepayment	290		290
<b>As reported under IFRS</b>	<b>1,965</b>	<b>13,579</b>	<b>15,699</b>

The balances as at 31 December 2004 include the adjustment in respect of additional pension contributions as referred to in Note 4b.

### Recognition of dividends (IAS 10)

Under UK GAAP, proposed dividends in respect of an accounting period are recognised as a liability at the balance sheet date. Under IAS 10, "Events after the balance sheet date", dividends proposed are only recognised as a liability when approved by the Board.

The final dividend proposed at 31 December 2004 has been reversed in the opening balance sheet and recognised in the year ended 31 December 2005. Dividends are charged directly to equity.

### Recognition of Share based Payments (IFRS 2)

Under IFRS 2 companies are required to recognise the value of "share based payment" awards to employees. Full details of these awards are in Note 4(c).

### Treatment of Pension Prepayment (IAS 19)

Under UK GAAP the Company was amortising a pension prepayment under SSAP 24. Under IAS 19 the pension scheme is accounted for as a defined contribution scheme, and the amortisation charge of £290,000 has been reversed.

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## Reconciliations between IFRS and UK GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The reconciliation provides an overview of the impact on equity of the transition at 1 January 2004 and 31 December.

	Note	Previous GAAP	Effect of transition to IFRSs 1 January 2004	IFRSs	Previous GAAP	Effect of transition to IFRSs 31 December 2004	IFRSs
<b>ASSETS</b>							
<b>Non-current assets</b>							
Property, plant and equipment	10	353	-	353	166	-	166
Investments	11	105	-	105	105	-	105
Deferred tax assets	16	135	142	277	139	142	281
<b>Total non-current assets</b>		<b>593</b>	<b>142</b>	<b>735</b>	<b>410</b>	<b>142</b>	<b>552</b>
<b>Current assets</b>							
Trade and other receivables	12	10,601	(142)	10,459	9,514	148	9,662
Cash and cash equivalents	13	14,285	-	14,285	20,963	-	20,963
<b>Total current assets</b>		<b>24,886</b>	<b>(142)</b>	<b>24,744</b>	<b>30,477</b>	<b>148</b>	<b>30,625</b>
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Trade and other payables	14	(9,045)	-	(9,045)	(14,699)	1,800	(12,899)
Provisions	15	-	(1,604)	(1,604)	-	(1,519)	(1,519)
<b>Total current liabilities</b>		<b>(9,045)</b>	<b>(1,604)</b>	<b>(10,649)</b>	<b>(14,699)</b>	<b>281</b>	<b>(14,418)</b>
<b>Net current assets</b>		<b>15,841</b>	<b>(1,604)</b>	<b>14,095</b>	<b>15,778</b>	<b>429</b>	<b>16,207</b>
<b>Total assets less current liabilities</b>		<b>16,434</b>	<b>(1,604)</b>	<b>14,830</b>	<b>16,188</b>	<b>571</b>	<b>16,759</b>
<b>Non-current liabilities</b>							
Provisions	15	(2,855)	1,604	(1,251)	(2,579)	1,592	(987)
Deferred tax liability	16	-	-	-	-	(73)	(73)
<b>Total non-current liabilities</b>		<b>(2,855)</b>	<b>1,604</b>	<b>(1,251)</b>	<b>(2,579)</b>	<b>1,519</b>	<b>(1,060)</b>
		<b>13,579</b>	<b>-</b>	<b>13,579</b>	<b>13,609</b>	<b>2,090</b>	<b>15,699</b>
<b>Capital and reserves</b>							
<b>Called up share capital</b>	17	<b>9,750</b>	<b>-</b>	<b>9,750</b>	<b>9,750</b>	<b>-</b>	<b>9,750</b>
<b>Revenue reserves</b>	23	<b>3,829</b>	<b>-</b>	<b>3,829</b>	<b>3,859</b>	<b>2,090</b>	<b>5,949</b>
<b>Shareholders' funds – equity interests</b>		<b>13,579</b>	<b>-</b>	<b>13,579</b>	<b>13,609</b>	<b>2,090</b>	<b>15,699</b>

**HSBC ACTUARIES AND CONSULTANTS LIMITED****NOTES TO THE FINANCIAL STATEMENT****1. ACCOUNTING POLICIES (Cont'd)****b) Turnover**

Turnover represents fees received and net commission earned from provision of advice. Fees are recognised on the basis of work completed, in accordance with client contracts, and commissions are recognised following completion of the policy with the insurance company. A provision is held for policies that may be cancelled in the future resulting in a proportion of the premium being repaid to the insurance company.

**c) Foreign currency**

Foreign currency balances in respect of business settled in those currencies are translated at the closing rates of exchange on the balance sheet date.

Differences arising from translation and conversion of amounts in foreign currencies are dealt with in the income statement.

**d) Financial Instruments**

In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes or other purposes.

**e) Property, plant and equipment**

Property, plant and equipment assets are stated at cost less amounts provided for depreciation.

Short leasehold premises are amortised on a straight line basis over the period of the lease.

Other property, plant and equipment assets are depreciated on a straight line basis by reference to their estimated useful lives of between 3 and 15 years.

**f) Leased assets**

Rental payments made in respect of operating leasing arrangements are charged to the income statement on a straight line basis over the life of the lease.

**g) Intermediate Parent Undertaking**

These separate financial statements contain information about HSBC Actuaries and Consultants Limited as an individual company and do not contain consolidated information as the parent of a group. The Company has taken advantage of the exemption under s228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its ultimate parent, HSBC Holdings plc.

**h) Intangible Assets and Goodwill**

Goodwill represents amounts arising on acquisition of subsidiaries and is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

**HSBC ACTUARIES AND CONSULTANTS LIMITED****NOTES TO THE FINANCIAL STATEMENT**

Goodwill is included at 1 January 2004 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. On transition, amortisation of goodwill has ceased as required by IFRS1.

The gain or loss on disposal of an entity includes the carrying amount of any goodwill relating to the entity sold. Negative goodwill arising on acquisition is recognised directly in the income statement.

**i) Impairment**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets subject to amortisation or depreciation are reviewed for impairment if events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

To the extent that the carrying amount exceeds the recoverable amount, which is the higher of net realisable value and value in use, the asset is written down to its recoverable amount. Net realisable value is the estimated value at which an asset can be disposed of, less any direct selling costs. Value in use is the estimate of the discounted future flows generated from the assets' continued use, including those resulting from its ultimate disposal. For the purposes of assessing value in use, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**j) Employee benefits**

The Company participates in both the defined benefit and defined contribution sections of the HSBC Bank (UK) Pension Scheme. For the defined contribution section of the scheme the charge to the income statement represents the contributions payable to the scheme in respect of the accounting period. With respect to the defined benefits section of the scheme, the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis and therefore, as permitted by IAS19 (revised) 'Employee benefits' the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme.

**k) Provisions**

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**l) Financial risk**

The company's risk management objectives and policies aim to mitigate specific financial risks where there is a possibility that any financial risk may lead to material changes in the Company's financial performance, position or cash flow. The Company has limited exposure to financial risk through its financial assets and financial liabilities. Cash and cash equivalents are largely deposited with related parties in call deposits, mitigating liquidity risk. At the balance sheet date the maximum exposure to credit risk is limited to the carrying amount of each financial asset/liability in the balance sheet. Credit and concentration risk is limited due to the excellent credit rating of the Company's parent and related parties with whom cash and cash equivalents are deposited.

**HSBC ACTUARIES AND CONSULTANTS LIMITED****NOTES TO THE FINANCIAL STATEMENT**

The company has no contractually determined cash flows and so interest rate risk is minimal. No hedging techniques are employed.

**m) Share-based compensation**

The cost of awards to employees that take the form of shares or rights to shares is measured by the fair value of the equity instrument awarded at the date of grant, and is recognised in the income statement over the vesting period of the award, with a corresponding increase in equity.

The fair value of share options awarded is calculated using an option pricing model excluding the impact of non-market performance conditions. Non-market performance conditions are reflected in the assumptions of the number of options expected to vest, which is revised at each balance sheet date.

**n) Taxation**

The charge for taxation is based on the profit for the year at current rates of tax and takes into account deferred tax.

Deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities for reporting purposes and the amounts charged or credited for tax purposes. Deferred tax is calculated at the rate of tax expected to apply when the liability is settled or the asset is realised. A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred liabilities are only offset against deferred tax assets within the same taxable entity or qualifying local tax group where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Company controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will reverse in the foreseeable future.

**o) Net financing costs**

Net financing costs comprise interest payable, finance charges on finance leases, interest receivable on funds invested, dividend income, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement.

Interest income and interest payable is recognised in profit or loss as it accrues. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 2. OPERATING EXPENSES

Operating expenses comprise the following:

	Note	2005 £000	2004 £000
Staff costs	4(a)	21,244	19,235
Premises costs		2,301	2,339
Expenses and auditors' remuneration	7	5,923	5,134
Depreciation	10	103	154
Operating expenses		29,571	26,862

## 3. FINANCIAL INCOME

	2005 £000	2004 £000
<b>Interest receivable:</b>		
From Group undertakings	857	643

Interest received from Group undertakings represents principally interest earned on term deposits and cash balances held by HSBC Bank plc, a fellow subsidiary of HSBC Holdings plc.

## 4(a) STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2005 Number	2004 Number
Management	15	13
Consultants, pension administrators, actuaries and students	321	313
IT Staff	23	22
Office Administrators	50	51
<b>TOTAL</b>	<b>409</b>	<b>399</b>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	17,240	15,621
Social security costs	2,043	1,835
Other pension costs	1,721	1,624
Equity settled transactions (Note 4(c))	240	155
	21,244	19,235



# HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

### 4(b) Employee benefits

The majority of employees within the Company are members of the HSBC Bank (UK) Pension Scheme. This scheme comprises a fully funded defined benefit scheme and a defined contribution scheme which was established on 1 July 1996 for new employees.

As a result of the most recent actuarial valuation, showing that the defined benefit scheme was in deficit, the Company made a payment in 2004 to the scheme of £1,350,000. This payment represents the proportion charged by HSBC Group in respect of the total payment made to the scheme, in accordance with the advice of the scheme actuary. In 2005 £1,109,000 of this payment was refunded to the Company, and the charge of £290,000 incorporated in the results to the year ended 31 December 2004 was reversed.

With regards to the defined benefit scheme, the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. Therefore as permitted by IFRS 19 (revised) 'Employee benefits', the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme. Included within the total pension costs shown above is a cost of £416,787 (2004: £419,819) in relation to the defined benefit section of the scheme.

The pension costs of the HSBC Bank (UK) Pension Scheme are assessed across its membership as a whole, and it is not possible to determine the share of the scheme's assets and liabilities that relates to the group. Accordingly, the requirements of IFRS 19 (revised) 'Employee Benefits' relating to multi-employer schemes apply.

Further information on the scheme, the actuarial valuations, and the existence of the surplus or deficit in the scheme is given in the financial statements of HSBC Holdings plc.

### 4(c) Share Based Payment

During 2005, £239,599 was charged to the income statement in respect of share-based payment transactions (2004: £155,304).

#### Calculation of fair values

Fair values of share options/awards, measured at the date of grant of the option/award, are calculated using a binomial lattice methodology that is based on the underlying assumptions of the Black-Scholes model. The expected life of options depends on the behaviour of option holders, which is incorporated into the option model consistent with historic observable data. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

The significant assumptions used to estimate the fair value of the options granted in 2005 are as follows:

	Group Share Option Plan	3 year Savings- Related Share Option Schemes	5 year Savings- Related Share Option Schemes
Risk-free interest rate (%) .....	4.6	4.3	4.3
Expected life (years) .....	7.8	3.0	5.0
Expected volatility (%) .....	20	20	20

# HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

The risk-free rate was determined from the UK gilts yield curve for Group Share Option Plan awards and UK Savings-Related Share Option Schemes. Expected life is not a single input parameter but a function of various behavioural assumptions. Expected volatility is estimated by considering both historic average share price volatility and implied volatility derived from traded options over HSBC shares of similar maturity to those of the employee options. Expected dividend yield was based on historic levels of dividend growth denominated in sterling.

### Achievement Share Awards

Achievement shares were first awarded in 2005, and are awarded to eligible employees after taking into account the employee's performance in the prior year. Shares are awarded without corporate performance conditions and are released to employees after three years providing the employees have remained continuously employed by HSBC for this period.

In 2005 14,500 (2004 : nil) shares were issued at a fair value of £129,150. The charge to the income statement was £43,050 (2004 : £nil).

### Savings-Related Share Option Plans

The Savings-Related Share Option Plans invite eligible employees to enter into savings contracts to save up to £250 per month, with the option to use the savings to acquire shares. The aim of the plan is to align the interests of all employees to the creation of shareholder value. The options are exercisable within six months following either the third or the fifth anniversary of the commencement of the savings contract depending on conditions set at grant. The exercise price is at a 20 per cent (2004: 20 per cent) discount to the market value at the date of grant.

	Number
Outstanding at 1 January .....	228,529
Granted in the year .....	78,783
Exercised in the year .....	(1,058)
Forfeited in the year .....	<u>(23,539)</u>
Outstanding at 31 December	<u>282,715</u>

The weighted average fair value of options granted in the year as at the date of grant was £161,483 (2004 : 173,748). The charge to the income statement for 2005 was £153,995 (2004 : £112,750).

### Group Share Option Plan

The Group Share Option Plan was a long-term incentive plan available to certain HSBC employees between 2000 and 2004. The aim of the plan was to align the interest of those employees assessed as higher performing to the creation of shareholder value. This was achieved by setting certain Total Shareholder Return targets which must normally be attained in order for the awards to vest. Options were granted at market value and are normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions.

As at 31 December 2005 78,250 options had been granted, and no further options were granted in 2005. The fair value of the options granted at 31 December 2005 is £127,662.

The charge to the income statement for 2005 was £42,554 (2004 : £42,554)

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 5. FINANCIAL EXPENSES

Interest payable is in respect of the following:

	2005 £000	2004 £000
Loans from and other amounts due to Group undertakings	(11)	(13)

## 6. REMUNERATION OF DIRECTORS

A.M.M. Dixon was employed and remunerated by a parent undertaking. T.Kemp was employed and remunerated by a fellow subsidiary undertaking of HSBC Insurance Brokers Holdings Limited, the immediate parent company of HSBC Actuaries and Consultants Limited. No charge was made for services provided to the Company. Details of other Directors' emoluments are given below.

	2005 £000	2004 £000
Directors' emoluments	1,711	1,514
Company contributions to defined contribution schemes	244	200

The aggregate emoluments of the highest paid director were £373,000 (2004: £365,000). In 2005 the highest paid Director was not a member of a defined benefit scheme.

	Number of Directors 2005	Number of Directors 2004
Retirement benefits are accruing to the following number of Directors under:		
Defined benefit schemes	8	8
Defined contribution schemes	3	2

## 7. EXPENSES AND AUDITORS' REMUNERATION

	2005 £000	2004 £000
Included in profit are the following:		
Auditors' remuneration		
- for audit work	56	55
- Regulatory Fees	9	10

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 8. TAXATION

## Recognised in the income statement.

	2005	2004
	£'000	£'000
<i>Current tax expense</i>		
Current year	1,250	1,015
Adjustments in respect of prior year	(183)	85
	1,067	1,100
Deferred tax expense		
Origination and reversal of temporary differences	(190)	69
Total tax in income statement	877	1,169

## Reconciliation of effective tax rate

Profit before tax	3,203	3,134
Tax using the UK corporation tax rate of 30% (2004: 30%)	961	940
Non-deductible expenses	99	144
Under / (over) provided in prior years	(183)	85
Total tax in income statement	877	1,169

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 9. INTANGIBLE ASSETS

<b>Goodwill</b>	<b>£000</b>
<b>Cost:</b>	
At 1 January 2004	0
At 31 December 2004	0
At 1 January 2005	0
Addition	8,825
At 31 December 2005	8,825

The goodwill addition in the year relates to the acquisition of certain shareholdings as detailed in note 11.

## 10. PROPERTY, PLANT AND EQUIPMENT

	<b>Fixtures, fittings &amp; office equipment £000</b>	<b>Plant and Machinery £000</b>	<b>Total £000</b>
<b>Cost:</b>			
At 1 January 2004	189	467	656
Other acquisitions	7	61	68
Disposals	(7)	(144)	(151)
<b>Balance at 31 December 2004</b>	<b>189</b>	<b>384</b>	<b>573</b>
Balance at 1 January 2005	189	384	573
Other acquisitions	17	28	45
Disposals	-	-	-
<b>Balance at 31 December 2005</b>	<b>206</b>	<b>412</b>	<b>618</b>

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

*Depreciation:*

<b>Balance at 1 January 2004</b>	93	210	303
Depreciation charge for the year	31	123	154
Disposals	(4)	(46)	(50)
<b>Balance at 31 December 2004</b>	120	287	407

<b>Balance at 1 January 2005</b>	120	287	407
Depreciation charge for the year	28	75	103
Disposals	-	-	-
<b>Balance at 31 December 2005</b>	148	362	510

**Net book value:**

<b>At 1 January 2004</b>	96	257	353
<b>At 31 December 2004 and 1 January 2005</b>	69	97	166
<b>At 31 December 2005</b>	58	50	108

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 11. INVESTMENTS

Company	Shares in Group Undertakings Total £000
<b>Cost:</b>	
At 1 January 2005	105
Additions	220
Disposals	0
<b>At 31 December 2005</b>	<b>325</b>

On 19 June 2005, the Company acquired 100% of the share capital of NHFA Limited for £9,000,000. A further payment, to a maximum of £5,000,000 is payable depending on the future financial performance of NHFA Limited. However, the directors have not accrued for any amount that may be payable due to the uncertainty of the likelihood and amount that may be payable. The company acts as an independent financial advisor.

The acquisition has the following effect on Company assets and liabilities:

	Carrying Value pre acquisition £'000	Fair Value £'000
Tangible assets	42	42
Debtors	301	301
Cash and cash equivalents	497	497
Creditors	(547)	(547)
Provisions for liabilities and charges	(73)	(73)
Net Identifiable assets and liabilities	220	220
Goodwill acquired		8,825
Consideration paid, satisfied in cash *		9,045

\* Includes Stamp duty of £45,000.

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 12. TRADE AND OTHER RECEIVABLES

	2005	2004
	£000	£000
Trade debtors	7,222	6,399
Amounts owed by parent and other Group undertakings	6,703	2,952
Amounts owed by subsidiary undertakings	23	-
Other debtors	18	30
Prepayments and accrued income	300	281
	14,266	9,662

## 13. CASH AT BANK AND IN HAND

	2005	2004
	£000	£000
Held by other Group undertakings	26,438	20,963

The principal banker to the Company and its subsidiaries is HSBC Bank plc, a fellow subsidiary of HSBC Holdings plc.

## 14. TRADE AND OTHER PAYABLES

	2005	2004
	£000	£000
Trade Creditors	460	640
Amounts owed to parent and other Group undertakings	5,838	6,019
Other creditors including taxation and social security	1,762	1,785
Consideration due to vendors of NHFA limited	8,730	-
Accruals and deferred income	5,451	4,455
	22,241	12,899



## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 15. PROVISIONS

	Pension Transfer Compensation Payments £000	Other Compensation £000	Dilapidations £000	Total £000
<b>At 1 January 2005</b>	363	1,519	624	2,506
Release to the profit and loss account	(90)	(380)	(17)	(487)
Charge to the profit and loss account	-	812	-	812
Utilised in the year	-	(177)	-	(177)
<b>At 31 December 2005</b>	273	1,774	607	2,654

## 16. DEFERRED TAX

## Deferred Tax Asset

	Accelerated depreciation £000	Provisions £000	Total £000
<b>At 1 January 2005</b>	31	250	281
Adjustment in respect of prior year	17	114	131
Charge to the profit and loss account	2	(16)	(14)
<b>At 31 December 2005</b>	50	348	398

## Deferred Tax Liability

	Allowances claimed on Pension Prepayment in excess of Expense £000	Total £000
<b>At 1 January 2005</b>	(73)	(73)
Adjustment in respect of prior year	(87)	(87)
Charge to the profit and loss account	160	160
<b>At 31 December 2005</b>	-	-

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 17. SHARE CAPITAL

	2005 £000	2004 £000
<b>Authorised:</b>		
Ordinary shares of £1 each	24,000	10,000
<b>Issued:</b>		
Issued share Capital:	18,750	9,750

On 1 July 2005 the authorised share capital was increased from £10,000,000 to £24,000,000 by the creation of 14,000,000 ordinary shares of £1.00 each, ranking pari passu in all respects with the existing shares in the capital of the Company. On the same date 9,000,000 ordinary shares were issued and subscribed for, at par, by the immediate parent undertaking, HSBC Insurance Brokers Holdings Limited.

## 18. CONTINGENT LIABILITIES

**Group Guarantees**

Under Group registration all companies within the Group are jointly and severally liable for Value Added Tax due by other UK Group companies. No valuable security has been provided by the Company in respect of the above contingency.

**Investors compensation scheme levy**

The Investors Compensation Scheme charges levies in respect of compensation paid to policyholders who were advised by other Independent Financial Advisers who are now unable to meet those liabilities. It is not possible at this stage to estimate the levies which will be charged in the future.

**Other Provisions**

The Company may, in the normal course of conducting its businesses, receive claims for alleged negligence. It contests such claims vigorously and maintains substantial professional indemnity cover. Provisions for liabilities and charges include, where appropriate, the estimated cost of meeting any notified claims with amounts recoverable from insurers included in debtors.

**Deferred consideration on the purchase of NHFA**

The purchase consideration for NHFA included the possibility of further payments to a maximum of £5,000,000 to the vendors of NHFA Limited, depending on the level of turnover achieved by NHFA. The turnover shall be assessed annually in the period to 30 June 2008, and payments may be made each year.

# HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

### 19. OPERATING LEASE COMMITMENTS

The commitments of the Company to operating lease rental payments are as follows:

	Land & Buildings		Other	
	2005	2004	2005	2004
	£000	£000	£000	£000
Expiry within one year	-	-	125	89
Expiry between two and five years	-	-	242	261
Expiry over five years	386	386	-	-
	386	386	367	350

During the year £834k was recognised as an expense in the income statement in respect of operating leases (2004 : £852k).

### 20. RELATED PARTIES

The company provided pension advisory and administration services to other companies within the HSBC Group with total revenue of £2,312k (2004 : £2,359k). Services were received from Companies within the HSBC Group to a value of £1,390k (2004 : £1,359k)

The Company received banking services from HSBC Bank plc. These services were charged on an arm's length basis.

### 21. ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is HSBC Holdings plc, which is incorporated in Great Britain and registered in England and Wales.

HSBC Holdings plc heads the only group which prepares Group accounts into which the results of HSBC Actuaries and Consultants Limited are consolidated. Copies of these accounts may be obtained from 8 Canada Square, London E14 5HQ.

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 22. SUBSIDIARY UNDERTAKINGS

The following companies, all of which are registered in England and Wales were subsidiaries of the Company at 31 December 2005

	Activity	Proportion of Ordinary Share Capital Owned
		%
<b>Subsidiary Undertakings</b>		
HSBC Gibbs Consulting Limited	Dormant	100%
Antony Gibbs Trustees Limited	Corporate trustee to Pension Schemes	100%
HSBC Gibbs Actuarial and Advisory Services Limited	Dormant	100%
LGA Trustees Limited	Dormant	100%
NHFA Limited	Provision of Financial Planning advice	100%

## 23. EQUITY

## Reconciliation of movement in capital and reserves

	Share capital	Retained Earnings
Balance at 1 January 2004	9,750	3,829
Total Recognised Income and expense	-	1,965
Equity settled transactions	-	155
Balance at 31 December 2004 before transition to IFRS	9,750	5,949
Additional share capital issued in the year	9,000	-
Total Recognised income and expense	-	2,326
Dividends	-	(1,800)
Equity settled transactions	-	240
<b>Balance at 31 December 2005</b>	<b>18,750</b>	<b>6,715</b>

## HSBC ACTUARIES AND CONSULTANTS LIMITED

## NOTES TO THE FINANCIAL STATEMENT

## 24. DIVIDENDS

	2005 £000	2004 £000
Dividends	1,800	-

## 25. CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating Profit to net cash inflow from operating activities

	2005 £000	2004 £000
<b>Net profit before tax</b>	3,203	3,134
<b>Adjustments for</b>		
Depreciation	103	154
Profit on disposal of property plant and equipment	-	6
Interest Income	(857)	(643)
Interest Expense	11	13
Equity Settled Transactions	240	155
<b>Changes in working capital</b>		
(Increase)/decrease in Trade and other receivables	(4,604)	797
Increase/(decrease) in payables	9,393	3,879
Increase/(decrease) in provisions	148	(349)
<b>Cash generated from operations</b>	<b>7,637</b>	<b>7,146</b>