

HSBC Select (UK) Limited
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2001



REGISTERED NO. 2613429

HSBC Select (UK) Limited

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001

The directors present their report and the audited financial statements for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The Company, throughout the year, acted as an Insurance Broking Company in providing personal lines insurance in the UK.

No change in the Company's activities is anticipated.

RESULTS AND DIVIDEND

The Company made a loss on its ordinary activities before taxation during the year under review of £505,000 (2000: £29,000 profit) resulting in a loss after taxation for the year of £419,000 (2000: £9,000 profit).

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2001 (2000: £nil).

DIRECTORS

The directors who served during the year were:

A.M.M. Dixon	(Chairman)
R.S. Bright	(Managing Director)
N.F. Davies	
J.W. Evans	(Resigned 31 January 2001)
B.M. Walsh	(Resigned 31 July 2001)
N.C. Weaver	

DIRECTORS' INTERESTS

All the disclosable interests of the Directors which require disclosure in accordance with the requirements of the Companies Act 1985, are set out below, with the exception of those of Mr Dixon, whose interests are disclosed in the Directors' Report and Financial Statements of HSBC Insurance Holdings Limited and those of Mr Bright whose interests are disclosed in the Directors' Report and Financial Statements of HSBC Insurance Brokers Limited.

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

	<u>Granted</u>	<u>Exercised</u>
N F Davies	2,000	-
N C Weaver	4,498	-

HSBC Select (UK) Limited

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001

DIRECTORS' INSURANCE

Directors' and officers' liability insurance was in force throughout the year.

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.

The amount due to the Company's trade creditors at 31 December 2001 represents 30 days' average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied, and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

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

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 given.

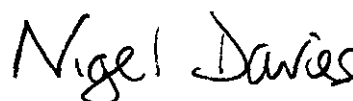
HSBC Select (UK) Limited

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001

EMPLOYMENT POLICY CONTINUED

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, in-house magazines 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.

By Order of the Board



N.F.Davies

Director

19th February 2002

Hexagon House
Cleppa Park
Newport
NP10 8XT

REGISTERED NO. 2613429

HSBC Select (UK) Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HSBC SELECT (UK) LIMITED

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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.

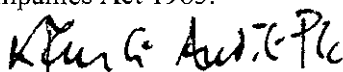
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 of the state of the company's affairs as at 31st December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

26 February 2002



8 Salisbury Square
London
EC4Y 8BB

HSBC Select (UK) Limited

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 £000	2000 £000
Turnover	1(b)/2	16,525	16,422
Administrative expenses		(16,843)	(16,321)
Operating (loss)/profit		(318)	101
Other interest receivable and similar income		116	279
Interest payable and similar charges	6	(303)	(351)
(Loss)/profit on ordinary activities before taxation	3	(505)	29
Taxation (payable)/recoverable on ordinary activities	7	86	(20)
(Loss)/profit for the financial year	14	(419)	9

All gains and losses have been dealt with in the profit & loss account.

There were no discontinued activities in either period.

The notes on pages 7 to 16 form part of these financial statements.

HSBC Select (UK) Limited
BALANCE SHEET AT 31 DECEMBER 2001

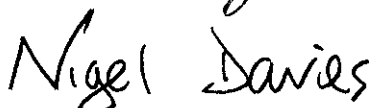
	Note	2001 £000	2000 £000
Fixed assets			
Tangible assets	8	1,606	1,870
		1,606	1,870
Current assets			
Debtors	9	11,699	12,282
Cash at bank and in hand		30	8
		11,729	12,290
Creditors: Amounts falling due within one year	10	(11,984)	(12,727)
Net current liabilities		(255)	(437)
Total assets less current liabilities		1,351	1,433
Creditors: Amounts falling due after more than one year	11	5,356	5,019
Capital and reserves			
Called up share capital	12	50	50
Revenue Reserves	13	(4,055)	(3,636)
Shareholders' funds	14	(4,005)	(3,586)
		1,351	1,433

The financial statements were approved
by the Board of Directors on 19th February 2002

R.S. BRIGHT


Directors

N.F.DAVIES


Nigel Davies

The notes on pages 7 to 16 form part of these financial statements.

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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 Accounting

The financial statements have been prepared in accordance with the historical cost convention on a going concern basis in accordance with applicable accounting standards.

(b) Turnover

Turnover comprises commissions receivable in respect of personal lines insurance.

Commission income is generally recognised when the invoice is charged except in the case of certain personal lines business where recognition is deferred until receipt of initial payment.

(c) Goodwill

Following the adoption of Financial Reporting Standard No 10 "Goodwill and Intangible Assets", goodwill arising on the acquisition of businesses or subsidiaries or associated undertakings after 1 January 1998 is capitalised and amortised to the profit and loss account over a period of 15 years. Goodwill previously written off to a separate goodwill write off reserve has been transferred to revenue reserves and has not been reinstated.

Goodwill is calculated as being the excess of the cost of acquisition over the fair value of the Group's share of the separable net assets acquired.

(d) Depreciation

Depreciation is charged on a straight line basis at the following rates:

Computer equipment	20% - 100% per annum
Furniture, fittings and equipment	10% - 33% per annum
Lease improvements	10% per annum

(e) Pension costs

The staff are members of a defined contribution pension scheme. The pension cost is charged to the profit and loss account.

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

(f) Government Grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to trading profit over the estimated useful economic lives of the assets to which they relate. Government grants in respect of revenue expenditure are credited against the related expenditure.

(g) Cash Flow Statement

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of a company whose consolidated financial statements included a cash flow statement.

(h) Deferred Taxation

Deferred taxation in respect of the taxation effect of material timing differences is provided only to the extent that it is probable that liabilities will crystallise.

(i) Lease Assets

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

(j) Related Party Transactions

Under Financial Reporting Standard No. 8 the Company is exempt from disclosing transactions within the HSBC Group as the Company is a wholly owned subsidiary of that Group whose annual accounts are publicly available.

2. TURNOVER

The whole of the Company's turnover is derived in the UK.

3. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION AFTER CHARGING/(CREDITING) THE FOLLOWING:

	2001 £000	2000 £000
Auditors' remuneration	21	29
Depreciation	736	650
Rents payable under operating leases:		
- Furniture and equipment	17	32
- Other	338	379

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

4. REMUNERATION OF DIRECTORS

A.M.M. Dixon was employed and remunerated by a parent undertaking. No charge was made for services provided to the Company. Details of other directors' emoluments are given below.

	2001 £	2000 £
Directors' emoluments	411,647	454,577

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £149,653 (2000:£161,241). He is a member of a defined benefit scheme, under which his accrued pension at the year end was £57,600 (2000:£41,194).

	Number of directors 2001	2000
Retirement benefits are accruing to the following number of directors under:		
Defined Benefit Schemes	4	4
Money Purchase Schemes	1	1

5. STAFF NUMBERS AND COSTS

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

	2001 Number	2000 Number
Insurance broking	460	499
Other	93	78
	553	577

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	6,712	6,439
Social security costs	501	505
Other pension costs	391	367
	7,604	7,311

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

STAFF NUMBERS AND COSTS CONTINUED

Within the Group, the HSBC Bank (UK) Pension Scheme, assets of which are held in a separate trust fund, covers 96 per cent of UK employees. The HSBC Bank (UK) Pension Scheme comprises a funded defined benefit scheme ('the Principal Scheme') and a defined contribution scheme which was established on 1 July 1996 for new employees.

Actuarial valuations of the assets and liabilities of the Principal Scheme are carried out triennially by professionally qualified actuaries to determine its financial position and to enable the bank to determine the level of contributions to be made to the Principal Scheme.

The latest valuation of the Principal Scheme was made as at 31 December 1999 by C G Singer, Fellow of the Institute of Actuaries, of Watson Wyatt Partners. At that date, the market value of the Principal Scheme's assets was £7,265 million. The actuarial value of the assets represented 104 per cent of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting surplus amounted to £232 million. The method adopted for this valuation was the projected unit method and the main assumptions used were a long-term investment return of 6.85 per cent per annum, salary increases of 4.0 per cent per annum, equity dividend increases and rental growth of 3.5 per cent per annum, and post-retirement pension increases of 2.5 per cent per annum.

In consultation with the actuaries, the bank decided to increase contributions to 16.9 per cent of pensionable salaries from 1 January 2001 until the next actuarial valuation. The next actuarial valuation is due at 31 December 2002.

The group has continued to account for pensions in accordance with Statement of Standard Accounting Practice ('SSAP') 24 'Accounting for pension costs' and the disclosures given above are those required by that standard. FRS 17 'Retirement benefits' was issued in November 2000 but will not be mandatory for the group until the year ended 31 December 2003. Prior to this, phased transitional disclosures are required from 31 December 2001. These disclosures, to the extent not given above, are set out below:

The financial assumptions used to calculate the scheme liabilities for the group's main defined benefit pension schemes under FRS 17 are:

Discount rate	5.9%
Inflation assumption	2.5%
Rate of increase for pensions in payment and deferred pensions	2.5%
Rate of pay increase	3.75%

The assets in the defined benefit schemes and the expected dates of return are:

	Expected rate of return at 31 December 2001	Value at 31 December 2001 £m
Equities	7.1%	5,141
Bonds	5.1%	917
Other	4.0%	597
Total market value of assets		6,655
Present value of scheme liabilities		(7,408)
Deficit in the schemes		(753)
Related deferred tax liability		226
Net pension asset		(527)

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

STAFF NUMBERS AND COSTS CONTINUED

The group also provides post-retirement health care benefits for certain pensioners and employees together with their dependant relatives.

The charge relating to post-retirement health care is £11 million for the year (2000: £11 million; 1999: £11 million).

The latest full actuarial valuation of the scheme, which is unfunded, was carried out at 31 December 2000 by independent qualified actuaries and updated to 31 December 2001. At 31 December 2001 the estimated present value of the post-retirement benefit obligation was £147 million for the group and £140 million for the bank, of which £98 million (2000: £91 million) has been provided for by the group and £92 million (2000: £85 million) has been provided for by the bank. The main actuarial assumptions used to estimate this obligation at 31 December 2001 were price inflation of 2.5% per annum, health care claims cost escalation of 7.5% per annum and a discount rate of 5.9% per annum.

The majority of staff are members of the HSBC Defined Contributions Scheme. The pension charge for the period represents contributions payable by the Company to the fund and these amounted to £ 346,000

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £000	2000 £000
On bank loans and overdrafts	-	2
On all other loans	303	349
	303	351

7. TAXATION

The charge for taxation is based on the results for the year:

	2001 £000	2000 £000
UK Corporation tax (recovery)/payable at 30% (2000: 30%)	(95)	25
Under/(over) provision from previous periods	9	(5)
	(86)	20

Deferred tax of £33,000 (2000 £16,000) in respect of accelerated capital allowances has not been provided in the accounts, as in the opinion of the directors, the liability is not expected to crystallise in the foreseeable future.

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

8. TANGIBLE FIXED ASSETS

	Computer Equipment £000	Furniture, Fittings, Equipment & Motor Vehicles £000	Lease Improvements £000	Total £000
Cost:				
At 1 January 2001	2,172	1,751	328	4,251
Additions	301	171	-	472
At 31 December 2001	2,473	1,922	328	4,723
Depreciation:				
At 1 January 2001	1,140	1,086	155	2,381
Charged in year	445	258	33	736
At 31 December 2001	1,585	1,344	188	3,117
At 31 December 2001	888	578	140	1,606
At 31 December 2000	1,032	665	173	1,870

Included in total net book value is £9,318 (2000: £13,976) in respect of fixed assets held under finance leases. Depreciation for the year on those assets was £4,658 (2000: £4,658).

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

9. DEBTORS

	2001 £000	2000 £000
Amounts due within one year:		
Trade debtors	10,807	9,112
Amounts owed by Group undertakings	313	2,543
Other debtors	150	150
Prepayments and accrued income	429	477
	11,699	12,282

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £000	2000 £000
Trade creditors	7,075	8,941
Amounts owed to Group undertakings	3,016	1,868
Other creditors including taxation and social security	669	976
Accruals and deferred income	1,224	942
	11,984	12,727

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001 £000	2000 £000
Parent company Loan Notes repayable in 2005	5,000	5,000
Regional selective assistance	356	19
	5,356	5,019

All the Loan Notes are subordinated to the other indebtedness of the Company. Interest on the Loan Notes and the parent company loan is payable at 1% over LIBOR.

The maturity of debt included within creditors due after more than one year is as follows:

	2001 £000	2000 £000
3-5 years	5,000	5,000

The maturity of obligations under finance leases is as follows:

	2001 £000	2000 £000
Within one year	-	2
	-	2

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

12. SHARE CAPITAL

	2001 £000	2000 £000
Authorised:		
50,000 ordinary shares of £1 each	50	50
Issued:		
Share capital allotted, called up, and fully paid:		
50,000 ordinary shares of £1 each	50	50

13. REVENUE RESERVES

This is made up as follows:

	2001 £000	2000 £000
Profit and Loss Account:		
At beginning of year	(3,636)	(3,645)
Current year retained loss	(419)	9
At end of year	(4,055)	(3,636)

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2001 £000	2000 £000
Profit for the financial year	(419)	9
Net reduction/(addition)	(419)	9
Opening shareholders' funds	(3,586)	(3,595)
Closing shareholders' funds	(4,005)	(3,586)

15. CAPITAL COMMITMENTS

	2001 £000	2000 £000
Expenditure contracted for	-	62

16. 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.

The parent company of the smallest group of which the Company is a member and for which group accounts are prepared is headed by HSBC Insurance Brokers Limited, which is registered in England and Wales. The consolidated financial statements of HSBC Insurance Brokers Limited are available from 10 Lower Thames Street, London, EC3R 6AE.

The largest group in which the results of the Company are consolidated is that headed by HSBC Holdings plc. The consolidated financial statements of HSBC Holdings plc are available from 10 Lower Thames Street, London, EC3R 6AE.