

HSBC Select (UK) Limited
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2002

REGISTERED NO. 2613429



A36
COMPANIES HOUSE

0747
26/04/03

COMPANIES HOUSE

0315
02/04/03

HSBC Select (UK) Limited

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2002

PRINCIPAL ACTIVITIES

HSBC Select (UK) Limited ('the Company'), throughout the year, acted as an Insurance Broking Company in providing personal lines insurance in the UK.

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. The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2002 (2001: nil).

BUSINESS REVIEW

The return to profit is primarily due to improved conversion rates, particularly on the motor book, together with cost management initiatives.

SUBSEQUENT EVENTS AND FUTURE DEVELOPMENTS

During 2002, the Company was transferred to HSBC Bank plc from HSBC Insurance Brokers. On 31 March 2003 HSBC Select (UK) Limited was subject to a management buy out (see note 17).

DIRECTORS

The Directors who served during the year were as follows:

Name	Appointed	Resigned
R S Bright		
R G Hampton	24 June 2002	
A A Lee	24 June 2002	
A M Tomlinson	24 June 2002	
N C Weaver		
A M M Dixon		24 June 2002
N F Davies		24 June 2002

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:

	HSBC Holdings plc	
	Ordinary shares of US\$0.50 each	
	31 December 2002	1 January 2002
		(or appointment date)
R S Bright	6,315	6,112
R G Hampton	814	-
A M Tomlinson	73	24

During the year options over HSBC Holdings plc ordinary shares of US\$0.50 each were

granted/exercised as follows:

	<u>Granted</u>	<u>Exercised</u>
R S Bright	300	-
R G Hampton	5,023	762
A A Lee	1,202	-
A M Tomlinson	2,523	762

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 is 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 2002 represented 30 days' average daily purchases of goods and services received from those creditors.

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.

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, 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. The involvement of employees in the performance of the Company is further encouraged through a profit participation scheme.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO 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 prepare these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the 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.

By order of the Board

A handwritten signature in black ink, appearing to be 'A. Lee', written over a horizontal line.

Andrew Lee
Secretary

31 March 2003

Registered Office:
8 Canada Square
London
E14 5HQ

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.

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 auditors 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

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

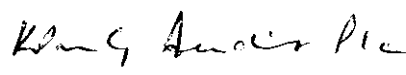
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
31 March 2003


8 Salisbury Square
London
EC4Y 8BB

HSBC Select (UK) Limited

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 £000	2001 £000
Turnover	1(e)/2	19,871	16,525
Administrative expenses		(15,698)	(16,843)
Operating profit/(loss)		4,173	(318)
Other interest receivable and similar income		2	116
Interest payable and similar charges	6	(348)	(303)
Profit/(loss) on ordinary activities before taxation	3	3,827	(505)
Taxation (payable)/recoverable on ordinary activities	7	(1,258)	86
Profit/(loss) for the financial year	14	2,569	(419)

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.

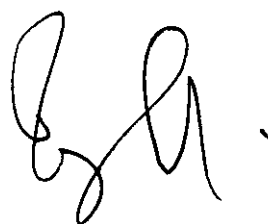
HSBC Select (UK) Limited
BALANCE SHEET AT 31 DECEMBER 2002

	Note	2002 £000	2001 <i>Restated</i> £000
Fixed assets			
Tangible assets	8	1,043	1,606
		1,043	1,606
Current assets			
Debtors	9	17,223	11,699
Cash at bank and in hand	10	885	396
		18,108	12,095
Creditors: Amounts falling due within one year	11	(15,587)	(12,350)
Net current assets/(liabilities)		2,521	(255)
Total assets less current liabilities		3,564	1,351
Creditors: Amounts falling due after more than One year	12	(5,000)	(5,356)
Net liabilities		(1,436)	(4,005)
Capital and reserves			
Called up share capital	13	50	50
Profit and Loss account	14	(1,486)	(4,055)
Shareholders' deficit	15	(1,436)	(4,005)

The financial statements were approved
by the Board of Directors on 31 March 2003

R.S. BRIGHT

Director



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 to the Company's financial statements, except for the adoption of Financial Reporting Standard ('FRS') 19 'Deferred Tax' with effect from 1 January 2002 and the change in accounting policy for the presentation of overdraft balances (see Note 1a for further details).

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical accounting rules.

Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate for the following reason. On 31 March 2003, the Company was subject to a management buy out which has resulted in the Company having positive net assets (see note 17). Therefore, the Directors have continued to use the going concern basis of preparation for these financial statements, which do not include any adjustments that would result from this basis being inappropriate.

The policy for accounting for overdraft balances has been changed. Previously, they had been offset against cash balances. It is now considered to be more appropriate for these balances to be shown as a separate liability. Comparatives have been restated accordingly. Further details are set out in Note 10. This change in presentation has had no effect on profits or retained reserves for either year.

In accordance with Financial Reporting Standard 1 (revised 1996) "Cash Flow Statements", no cash flow statement is presented as all voting rights are controlled by HSBC Holdings plc which publishes such a statement in its own publicly available accounts.

As the Company is a wholly owned subsidiary of HSBC Bank plc, the Company has taken advantage of the exemption outlined in Financial Reporting Standard 8 "Related Party Disclosures" and has therefore not disclosed transactions or balances with entities that form part of the HSBC group (or investees of the group qualifying as related parties). Note 18 details where the consolidated financial statements of HSBC Bank plc, within which this Company is included can be obtained.

(b) Goodwill

Following the adoption of Financial Reporting Standard 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 would be charged or credited in the profit and loss account on subsequent disposal of the business to which it related.

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.

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

(c) 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
Premises improvements	10% per annum

(d) Government Grants

Capital based government grants are included within other creditors 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.

(e) Turnover

Turnover comprises of commissions receivable and finance charge income 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. Finance charge income is recognised at the inception of each finance agreement on a straight line pro rated one tenth basis. The remaining finance charge income is classified as unearned finance charge and is carried in the balance sheet as a deduction from trade debtors.

(f) Pension costs

For UK defined benefit schemes annual contributions are made, on the advice of qualified actuaries, for funding of retirement benefits in order to build up reserves for each scheme member during the employee's working life, and used to pay a pension to the employee or dependent after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis. Contributions payable to defined contribution schemes are charged to the profit and loss account as they fall due.

(g) Deferred Taxation

Deferred tax is recognised in full on timing differences between the accounting and taxation treatment of income and expenditure, subject to assessment of the recoverability of deferred tax. Deferred tax balances are not discounted. The adoption of FRS 19 does not have a material effect on either this year's or the prior year's results.

(h) Operating Leases

Rentals under operating releases are charged to the profit and loss account on a straight line basis over the lease term.

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

2. TURNOVER

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

3. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging the following:

	2002 £000	2001 £000
Auditors' remuneration: audit services	23	21
Depreciation	686	736
Rents payable under operating leases:		
- Furniture and equipment	23	17
- Other	365	338

4. REMUNERATION OF DIRECTORS

R.G. Hampton and A.M. Tomlinson are employed and remunerated by a parent undertaking. No charge is made for services provided to the Company. 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.

	2002 £	2001 £
Directors' Emoluments	483,628	405,939
Pension scheme contributions	9,022	5,708
	492,650	411,647

The aggregate of emoluments for the highest paid Director was £268,667 (2001:£149,653). He is a member of a defined benefit scheme, under which his accrued pension at the year end was £61,662 (2001:£57,600).

	Number of Directors 2002	Number of Directors 2001
Retirement benefits are accruing to the following number of Directors under:		
Defined Benefit Schemes	2	4
Money Purchase Schemes	2	1

Details in relation to Directors who exercised share options during 2002 are disclosed in the Director's Report.

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

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:

	Number 2002	Number 2001
Insurance broking	349	460
Other	90	93
	439	553

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	6,490	6,712
Social security costs	469	501
Other pension costs	384	391
	7,343	7,604

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 benefits scheme ('the Principal Scheme') and a defined contribution scheme which was established on 1 July 1996 for new employees.

Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme.

Information about the existence of the surplus or deficit in the scheme and the implications of that surplus or deficit for the employer can be found in the financial statements of HSBC Holdings plc.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £000	2001 £000
On bank loans and overdrafts	98	-
On loans from group undertakings	250	303
	348	303

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

7. TAXATION

(a) Analysis of charge/(credit) in period.

	2002 £000	2001 £000
Current Tax:		
UK corporation tax on profits/(losses) of the period.	1,160	(95)
Adjustments in respect of previous periods.	98	9
Total current tax (note 7b)	1,258	(86)
Tax on profits on ordinary activities	1,258	(86)

(b) Factors affecting tax charge for the period.

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below.

	2002 £000	2001 £000
Profit/(loss) on ordinary activities before tax.	3,827	(505)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 = 30%).	1,148	(151)
Effects of:		
Expenses not deductible for tax purposes.	15	9
Depreciation for period in excess of capital allowances.	64	47
Other tax adjustments	(67)	-
Adjustments to tax charge in respect of previous periods.	98	9
Current tax charge for period	1,258	(86)

The company has a potential deferred tax asset of £146,127 (2001: £82,454) in respect of originating timing differences on qualifying assets. The deferred tax asset has not been recognised in these financial statements as recovery of the potential benefits is not considered likely 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	Premises Improvements £000	Total £000
Cost:				
At 1 January 2002	2,473	1,922	328	4,723
Additions	103	18	2	123
At 31 December 2002	2,576	1,940	330	4,846
Depreciation:				
At 1 January 2002	1,585	1,344	188	3,117
Charged in year	437	215	34	686
At 31 December 2002	2,022	1,559	222	3,803
Net Book Value:				
At 31 December 2002	554	381	108	1,043
At 31 December 2001	888	578	140	1,606

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

9. DEBTORS

	2002 £000	2001 £000
Amounts due within one year:		
Trade debtors	16,579	10,807
Amounts owed by Group undertakings	88	313
Other debtors	45	150
Prepayments and accrued income	511	429
	17,223	11,699

9. CASH AT BANK AND IN HAND

As set out in Note 1a. the policy for accounting for overdraft balances has been changed. Previously they had been offset against cash balances. Overdraft balances are now disclosed as a separate liability. The comparative figures for cash and overdrafts for 2001 have been increased by £366,000 to reflect this change. As at 31 December, cash at bank and in hand amounted to £885,000 (2001: £396,000), and overdrafts amounted to £4,551,000 (2001: £366,000)

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £000	2001 <i>Restated</i> £000
Overdrafts	4,551	366
Trade creditors	5,321	7,075
Amounts owed to Group undertakings	2,672	3,016
Other creditors including taxation and social security	806	669
Regional selective assistance grant	350	—
Accruals and deferred income	1,887	1,224
	15,587	12,350

In 2001 a grant of £350,000 was received from the Welsh Assembly. Under the terms of this grant, HSBC Select (UK) Limited were obliged to fulfil a number of conditions in order to ensure that the grant was not repayable. As at 31 December 2002, not all these conditions have been fulfilled and HSBC Select (UK) Limited is currently in discussions with the Welsh Assembly to determine how much should be repaid before the post completion expiry date of April 2003. Accordingly, the full grant received has been reclassified from creditors falling due after more than one year to creditors falling due in less than one year.

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

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

	2002 £000	2001 £000
Amounts payable to Group undertakings	5,000	5,000
Regional selective assistance	-	356
	5,000	5,356

Amounts payable to group undertakings represent loan notes issued by HSBC Select (UK) Limited repayable in 2005. All the loan notes are subordinated to the other indebtedness of the Company. Interest is payable at 1% over LIBOR.

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

	2002 £000	2001 £000
2-5 years	5,000	5,000
	5,000	5,000

13. SHARE CAPITAL

	2002 £000	2001 £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

14. PROFIT AND LOSS ACCOUNT

	2002 £000	2001 £000
1 January	(4,055)	(3,636)
Current year retained profit/(loss)	2,569	(419)
31 December	(1,486)	(4,055)

Goodwill eliminated against reserves amounts to £5,950,000. (2001: £5,950,000).

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2002 £000	2001 £000
Profit/(loss) for the financial year	2,569	(419)
Net addition/(reduction)	2,569	(419)
Opening shareholder's deficit	(4,005)	(3,586)
Closing shareholders' deficit	(1,436)	(4,005)

16. COMMITMENTS

Annual commitments of the Company under non-cancellable other operating leases are as follows:

	2002 £000	2001 £000
Operating leases which expire: Within one year	-	7
In the second to fifth years inclusive	27	13
	27	20

16. POST BALANCE SHEET EVENTS

On 31 March 2003, the Company was subject to a management buy out whereby the entire issued share capital of the Company was sold to Able Brokers Ltd. Immediately prior to this sale, assets of the Company valued at £0.7 million at 31 December 2002 were sold to HSBC General Insurance Services (UK) Limited, a subsidiary of HSBC Bank plc, at their net asset value immediately prior to completion. The consideration for the sale of the shares of the Company to Able Brokers Ltd was £1 and Able Brokers Ltd procured that the Company repaid £6.6 million of the debt of the Company owed to HSBC Bank plc with the balance of the debt, in the sum of £1.5 million, being waived by HSBC Bank plc. This has resulted in the Company having positive net assets of £1.

HSBC Select (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

18. ULTIMATE HOLDING COMPANY

The Company's immediate parent company is HSBC Bank plc and its ultimate parent company is HSBC Holdings plc, both of which are registered in England.

The largest group in which the results of the Company are consolidated is that headed by HSBC Holdings plc. The smallest group in which they are consolidated is that headed by HSBC Bank plc. The consolidated accounts of these groups are available to the public and may be obtained from their registered offices at:

HSBC Bank plc
8 Canada Square
London
E14 5HQ

HSBC Holdings plc
8 Canada Square
London
E14 5HQ