

HSBC Select (UK) Limited
(Formerly HSBC Gibbs Personal Insurances Limited)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1999

REGISTERED NO. 2613429



HSBC Select (UK) Limited
(Formerly HSBC Gibbs Personal Insurances Limited)

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 1999.

PRINCIPAL ACTIVITY

The principal activity of the Company continues to be the provision of household and motor insurance services for personal clients.

CHANGE OF NAME

On 1 June 1999 the Company changed its name to HSBC Select (UK) Limited.

RESULTS AND DIVIDEND

The results of the Company are detailed in the profit and loss account on page 5. The directors do not recommend the payment of a dividend (1998: £nil).

FIXED ASSETS

Details of significant changes in fixed assets are shown on page 12.

DIRECTORS

The directors who served during the year were:

G.F.Puttergill	(Chairman)
R.S. Bright	(Managing Director)
N.F. Davies	Appointed 19 July 1999
A.M.M. Dixon	
J.W. Evans	Appointed 19 July 1999
B.M. Walsh	Appointed 19 July 1999

DIRECTORS' INTERESTS

The Directors' interest in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, as required to be disclosed under the Companies Act 1985, are set out below. As a result of a share capital reorganisation implemented on 2 July 1999, each ordinary share of 75p each was replaced with three ordinary share shares of US\$0.50 each.

	<u>At 1/1/99</u> (or date of appointment if later)		<u>At 31/12/99</u>
	Ordinary Shares of 75p each	Ordinary Shares of US\$0.50 each	Ordinary Shares of US\$0.50 each
G.F. Puttergill	6,689	-	21,231
B.M. Walsh	-	2,067	2,067

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DIRECTORS' REPORT

DIRECTORS' INTERESTS CONTINUED

As a consequence of the share capital reorganisation, all awards under the Share Option Schemes, made in ordinary shares of 75p each, were adjusted by multiplying the number of shares by three and dividing the relevant exercise price by three. In accordance with the requirements for disclosure under the Companies Act 1985, options over shares that were granted/exercised are follows:

	Granted Ordinary shares of 75p each	Exercised Ordinary Shares of US\$0.50 each
R.S. Bright	3,000	-
A.M.M. Dixon	7,000	-
G.F. Puttergill	-	4,428

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

DIRECTORS' RESPONSIBILITIES

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 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.

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DIRECTORS' REPORT

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; explain payment procedures to suppliers; pay bills in accordance with any contract agreed with the supplier or as required by law; and tell suppliers without delay when an invoice is contested and settle disputes quickly.

The amount due to the Company's trade creditors at 31 December 1999 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.

YEAR 2000

There has been no disruption to the Company's operations, during or since the turn of the millennium, as a result of the systems, upon which the Company relies, not being Year 2000 compliant. No disruption is expected and the Directors continue to monitor the position.

The costs of the Year 2000 modifications have been assessed on a group basis and are incorporated within the report of HSBC Holdings plc.

Hexagon House
Cleppa Park
Newport
NP10 8XT

By Order of the Board



L.J. Jenkinson
Secretary
February 2000

REGISTERED NO. 2613429

HSBC Select (UK) Limited
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AUDITORS' REPORT TO THE SHAREHOLDERS
OF HSBC Select (UK) Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 1, 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. 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 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 affairs of the Company as at 31 December 1999 and of the result of the Company 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 Auditors
25 February 2000

8 Salisbury Square
London
EC4Y 8BB

HSBC Select (UK) Limited
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PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1999

	Note	1999 £000	1998 £000
Turnover	1(b)/2	16,021	12,189
Administrative expenses		(14,697)	(11,249)
Reorganisation costs		-	(909)
Operating Profit		1,324	31
Other interest receivable and similar income		222	265
Interest payable and similar charges		(349)	(445)
Profit/(Loss) on ordinary activities before taxation	3	1,197	(149)
Tax on profit/(loss) on ordinary activities	6	(352)	(246)
Profit/(Loss) for the financial year	13	845	(395)

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 17 form part of these financial statements.

HSBC Select (UK) Limited
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BALANCE SHEET AT 31 DECEMBER 1999

	Note	1999 £000	1998 £000
Fixed assets			
Tangible assets	7	1,475	1,484
		1,475	1,484
Current assets			
Debtors	8	15,634	11,985
Cash at bank and in hand		310	233
		15,944	12,218
Creditors: Amounts falling due within one year	9	(15,994)	(12,520)
Net current (liabilities)/assets		(50)	(302)
Total assets less current liabilities		1,425	1,182
Creditors: Amounts falling due after more than one year	10	5,020	5,622
Capital and reserves			
Called up share capital	12	50	50
Revenue Reserves	13	(3,645)	(4,490)
Shareholders' funds	16	(3,595)	(4,440)
		1,425	1,182

The financial statements were approved
by the Board of Directors on 4th February 2000

R.S. BRIGHT

G.F. PUTTERGILL

Directors

The notes on pages 7 to 17 form part of these financial statements.

HSBC Select (UK) Limited
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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

Pension contributions comprise the normal contributions for the period, determined according to actuarial advice where appropriate, together with the approximate proportion of actuarial deficiencies or surpluses which are recognised over the average expected remaining service lives of the employees concerned.

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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.

2. TURNOVER

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

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

	1999	1998
	£000	£000
Auditors' remuneration	25	26
Directors' remuneration (see note 4)	613	182
Depreciation	592	512
Rents payable under operating leases:		
- Furniture and equipment	22	144
- Other	160	160

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NOTES TO THE FINANCIAL STATEMENTS

4. REMUNERATION OF DIRECTORS

G.F. Puttergill and A.M.M. Dixon were 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.

	1999 £	1998 £
Directors' emoluments	593,556	171,515

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £508,193 (1998:£171,515). He is a member of a defined benefit scheme, under which his accrued pension at the year end was £34,591 (1998:£28,743).

	Number of directors 1999	1998
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	4	1

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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:

	1999 Number	1998 Number
Insurance broking	451	410
Other	73	52
	524	462

The aggregate payroll costs of these persons were as follows:

	1999 £000	1998 £000
Wages and salaries	5,447	4,588
Social security costs	417	336
Other pension costs	335	227
	6,199	5,151

During 1998 the majority of staff were members of the Gibbs Pension and Life Assurance Plan, which is a defined benefit scheme based on final pensionable salary. Its assets are held in a separate trustee-administered fund. Annual profits are charged with pension contributions based on the total pension costs for HSBC Gibbs Holdings Limited and its subsidiaries as a whole, which are assessed in accordance with the advice of qualified actuaries, (who are employees of HSBC Gibbs Actuaries and Consultants Limited, a fellow subsidiary undertaking), using the projected unit method. The latest actuarial assessment was made at 1st April 1998 and full details of this scheme are given in the financial statements of HSBC Gibbs Holdings Limited, the Company's immediate holding company.

With effect from 17 January 2000 the Gibbs Pension and Life Assurance Plan has been merged into the HSBC Bank plc Pension Scheme, which is the HSBC Group's main pension scheme for Group employees in the UK.

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NOTES TO THE FINANCIAL STATEMENTS

6. TAXATION

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

	1999	1998
	£000	£000
UK Corporation tax at 30.25% (1998: 31%)	409	265
Over provision from previous periods	(57)	(19)
	352	246

Deferred tax of £40,000 (1998: £67,000) 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.

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NOTES TO THE FINANCIAL STATEMENTS

7. TANGIBLE FIXED ASSETS

	Computer Equipment £000	Furniture, Fittings, Equipment & Motor Vehicles £000	Lease Improvements £000	Total £000
Cost:				
At 1 January 1999	1,305	1,462	209	2,976
Additions	497	40	53	590
Disposals	-	(17)	-	(17)
At 31 December 1999	1,802	1,485	262	3,549
Depreciation:				
At 1 January 1999	855	536	101	1,492
Charged in year	292	279	21	592
Charge on disposals	-	(10)	-	(10)
At 31 December 1999	1,147	805	122	2,074
Net book value:				
At 31 December 1999	655	680	140	1,475
At 31 December 1998	450	926	108	1,484

Included in total net book value is £18,634 (1998: £26,142) in respect of fixed assets held under finance leases. Depreciation for the year on those assets was £7,508 (1998: £58,327).

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NOTES TO THE FINANCIAL STATEMENTS

8. DEBTORS

	1999	1998
	£000	£000
Amounts due within one year:		
Trade debtors	8,070	7,388
Amounts owed by Group undertakings	7,053	4,075
Other debtors	56	70
Prepayments and accrued income	455	452
	15,634	11,985

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999	1998
	£000	£000
Trade creditors	12,487	9,300
Amounts owed to Group undertakings	1,055	790
Other creditors including taxation and social security	910	830
Accruals and deferred income	1,542	1,600
	15,994	12,520
Other creditors including taxation and social security comprise:		
Corporation tax	292	265
Other creditors	618	565
	910	830

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NOTES TO THE FINANCIAL STATEMENTS

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

	1999	1998
	£000	£000
Parent company Loan Notes repayable in 2005	5,000	5,000
Parent company loans	-	595
Finance leases	1	8
Regional selective assistance	19	19
	5,020	5,622

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:

	1999	1998
	£000	£000
3-5 years	5,000	595
Over five years	-	5,000

The maturity of obligations under finance leases is as follows:

	1999	1998
	£000	£000
Within one year	6	6
In the second to fifth years	2	8
	8	14

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NOTES TO THE FINANCIAL STATEMENTS

11. OPERATING LEASES

The Company had commitments under non-cancellable operating leases payable during the next year as follows:-

	As at 31 December 1999	As at 31 December 1998
	Computers & Equipment £000	Computers & Equipment £000
Operating leases which expire:		
Within one year	-	45
	-	45

Rental payments made under operating leases are expensed over the life of the lease. Computers and equipment are leased from a parent company.

12. SHARE CAPITAL

	1999 £000	1998 £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

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NOTES TO THE FINANCIAL STATEMENTS

13. REVENUE RESERVES

This is made up as follows:

	1999 £000
Profit and Loss Account;	
At beginning of year	(4,490)
Current year retained (loss)/profit	845
At end of year	(3,645)

14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1999 £000	1998 £000
Profit/(Loss) for the financial year	845	(395)
Net addition/(reduction)	845	(395)
Opening shareholders' funds	(4,440)	(4,045)
Closing shareholders' funds	(3,595)	(4,440)

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NOTES TO THE FINANCIAL STATEMENTS

15. CAPITAL COMMITMENTS

	1999	1998
	£000	£000
Expenditure contracted for	54	80

16. RELATED PARTIES

In the normal course of business, the Company receives/provides services from/to the following companies within the HSBC Group:

	<u>Services Received</u>	<u>Services Provided</u>
HSBC Bank plc	Banking services	-
HSBC Insurance Brokers Limited	Management Services	-
Lawinsure Limited	-	Management Services and insurance processing
Premium Credit Limited	-	Instalment funding

Banking services are charged on an arms length basis; management services are charged at cost plus a margin where appropriate; insurance processing is charged as a percentage of premiums processed; instalment funding is provided on an arms length basis.

17. 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.