



BMS Harris & Dixon Insurance Brokers Limited

Report and Accounts

31 December 2002





Registered No: 420472

Directors

J W J Spencer (Chairman) (appointed 31 December 2002)
S Higginson
J M Martin
D R Morgan
A G Pryce
D Sullivan
R S Thomson
R D L Urquhart

C B Manwaring (Chairman) (retired 31 December 2002)
G N Baly (resigned 31 December 2002)
I Bethune (resigned 28 March 2002)

Secretary

J J F Hills

Auditors

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London
EC4A 1NH

Registered Office

Latham House
16 Minories
London
EC3N 1AX



Directors' report

The directors present their report and accounts for the twelve months ended 31 December 2002 which were approved at a meeting of the Board on 3 July 2003.

Results and dividend

The results for the twelve months are set out on page 6 of the accounts. The profit for the year, after tax, amounted to £731,175 (2001 - £994,900). The directors do not recommend the payment of a dividend (2001 - £1,500,000).

Principal activities and future developments

The company is a Lloyd's Broker whose principal activity continues to be that of insurance broking, specialising in the broking of international insurance and reinsurance business.

Directors and their interests

The present directors of the board are listed on page 1.

None of the directors had any interest in the shares of the company.

The following directors hold interests in the parent undertaking of the largest group of undertakings, namely BMS Associates Limited.

	<i>Number of "A" shares held at</i>		<i>Number of "B" shares held at</i>	
	<i>31 December</i>	<i>1 January</i>	<i>31 December</i>	<i>1 January</i>
	<i>2002</i>	<i>2002*</i>	<i>2002</i>	<i>2002*</i>
G N Baly	—	—	650	650
C B Manwaring	50	50	9,000	12,467
J M Martin	—	—	940	907
D R Morgan	—	—	2,484	2,484
A G Pryce	—	—	4,642	4,535
J W J Spencer	—	—	3,038	2,495
D Sullivan	196	196	18,902	21,372
R S Thomson	—	—	917	917
R D L Urquhart	—	—	947	947

* or date of appointment, if later.

None of the directors had any interest in the shares of any other group company.

Employees

Industrial relations have been satisfactory and the company continues to take into account the needs of its employees when formulating policies which affect them. Once again the directors are glad to record their appreciation of the contribution made by all staff towards the company's performance during the year.

The company gives full consideration to suitable applications for employment from disabled persons. There are also opportunities for existing employees who become disabled to continue in their employment or to be trained for other positions within the company.



Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to read 'M. R.', written over the printed name 'Chairman'.

Chairman

3 July 2003

Statement of directors' responsibilities in respect of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of BMS Harris & Dixon Insurance Brokers Limited

We have audited the company's accounts for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 26. These accounts have been prepared on the basis of 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 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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.

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

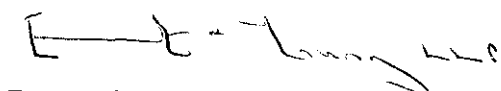
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company 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.



Ernst & Young LLP
Registered Auditor
London

3 July 2003

Profit and loss account

for the year ended 31 December 2002

	Notes	2002 £	2001 £ <i>Restated</i>
Turnover	3	8,784,019	10,051,557
Other operating income	4	759,276	1,229,155
		<u>9,543,295</u>	<u>11,280,712</u>
Expenses			
Staff costs	5	3,077,482	5,515,791
Other operating charges		5,375,575	4,301,823
		<u>8,453,057</u>	<u>9,817,614</u>
Operating profit	7	1,090,238	1,463,098
Interest payable	8	520	589
		<u>1,089,718</u>	<u>1,462,509</u>
Profit on ordinary activities before taxation			
Tax on profit on ordinary activities	9	(358,543)	(467,609)
		<u>731,175</u>	<u>994,900</u>
Profit on ordinary activities after taxation			
Dividend payable	10	–	(1,500,000)
Profit/(Loss) retained		<u>731,175</u>	<u>(505,100)</u>

Recognised gains and losses

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £731,175 in the twelve months ended 31 December 2002, and the profit of £994,900 in the year ended 31 December 2001.

Balance sheet

at 31 December 2002

		31 December 2002	31 December 2001
	Note	£	£ <i>Restated</i>
Fixed assets			
Tangible assets	11	14,032	151,093
Investments	12	147,988	146,133
		<u>162,020</u>	<u>297,226</u>
Current assets			
Debtors	13	74,125,116	64,915,173
Cash at bank and in hand	15	17,117,806	27,021,101
		<u>91,242,922</u>	<u>91,936,274</u>
Creditors: amounts falling due within one year	16	(84,600,661)	(85,990,394)
Net current assets		<u>6,642,261</u>	<u>5,945,880</u>
Provision for other liabilities and charges	17	(605,000)	(775,000)
Total net assets		<u>6,199,281</u>	<u>5,468,106</u>
Capital and reserves			
Called up share capital	21	1,000,000	1,000,000
Profit and loss account		5,199,281	4,468,106
Shareholders' funds	22	<u>6,199,281</u>	<u>5,468,106</u>

Approved by the Board on 3.7.03 and signed on its behalf by:



Director

Notes to the accounts

at 31 December 2002

1. Accounting policies

Accounting convention

The accounts have been prepared using the historical cost convention and in accordance with applicable accounting standards.

Basis of preparation

The accounts present information about the Company as an individual undertaking as it is exempt from the obligation to prepare group accounts under section 228 of the Companies Act 1985. Group accounts have not been prepared as the company is a wholly-owned subsidiary within a UK group for which consolidated accounts are prepared.

These accounts present information about the company as an individual undertaking and not about the group.

Change in accounting policy

From 1 January 2002 the company has adopted the new Financial Reporting Standard ('FRS') 19 'Deferred Tax' which requires full provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the accounts and their recognition in the tax computation.

The effect of this change in accounting policy is set out in note 2 to the accounts. Comparative amounts have been restated, where necessary.

Brokerage

Brokerage is generally credited on attachment of the risk or the date of issue of the debit note if later. Debit notes relating to treaty business are issued on the basis of periodic declarations submitted by cedants.

Where premiums are payable by instalments, brokerage relating to each instalment is credited on issue of the debit note for the respective instalment.

Brokerage originating from Africa, other than that received in US dollars, is credited on a cash received basis irrespective of the date of attachment of the risk or debit note.

Investments

Investments in subsidiary undertakings are carried at cost, less any provision for impairment.

Unlisted investments are stated at the lower of cost and directors' valuation.

Investment income

Investment income comprises interest earned on bank deposits and is credited as earned.

Foreign currencies

Brokerage and investment income earned in foreign currencies in which the company trades - principally US and Canadian dollars, Czech and Slovak Koruns and Deutschmarks - are translated to sterling either at the rate ruling at the end of the month in which the transaction is credited or, where applicable, at forward contract rate. Brokerage earned in convertible currencies is credited in sterling at notional rates of exchange applicable on issue of the debit note and adjusted at each month end until an actual rate of exchange is established at the date the premium is received.

Foreign currency amounts included in the accounts at the balance sheet date which have been identified for sale in forward contracts are translated to sterling at the appropriate contract rates. Other assets and liabilities in foreign currencies are translated to sterling at the rate ruling at the balance sheet date. The exchange rate for the US dollar at 31 December 2002 was £1 = US\$1.61 (2001 - £1 = US\$1.46).

Notes to the accounts

at 31 December 2002

1. Accounting policies (continued)

Foreign currencies (continued)

Exchange gains and losses arising on sales of currencies and on revaluation of assets and liabilities are included in the profit and loss account.

Forward rate agreements

Forward rate agreements are held off-balance sheet and receipts and payments on settlement are recognised as adjustments to investment income on an accruals basis over the life of the hedge.

Depreciation

Expenditure on assets is written off over the estimated useful lives of the assets on a straight line basis as follows:

Computer equipment and software	25%
Office equipment	10% to 20%

Leases

Rentals paid under operating leases are charged to income on a straight line basis over the period of the lease.

Deferred tax

In accordance with FRS 19 deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Insurance broking assets and liabilities

The company acts as an agent in broking the insurable risks of its clients and, generally, is not liable as a principal for premiums due to underwriters or for claims payable to clients. Notwithstanding the company's legal relationship with clients and underwriters, and since in practice premiums and claims are usually accounted for by insurance intermediaries, it has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the company.

The company normally settles on the basis of the net balance due to or from the clients, underwriters or their intermediaries. This is the normal practice within the insurance industry. For the purposes of these accounts the debtors and creditors relating to insurance business have been grossed up in accordance with the policies as set out in FRS 5 which limits the extent to which offsets can take place.

Pensions

The company operates a defined benefit pension scheme. Contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives. Variations in pension cost, which are identified as a result of actuarial valuation, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Notes to the accounts

at 31 December 2002

1. Accounting policies (continued)

Cashflow Statement

The company is exempt under FRS 1 (revised) from preparing a cashflow statement as it is a subsidiary of a company who holds more than 90% of its voting rights and whose consolidated accounts are publicly available.

2. Change in accounting policy and prior year restatement

The accounting policy for deferred tax has been changed in the current financial year, in accordance with FRS 19 'Deferred Tax' issued in December 2000. Previously deferred tax was provided or recognised only where it was likely that the amount would become payable or receivable in the foreseeable future.

Prior year amounts have been restated to reflect this change in accounting policy. The change has had the effect of decreasing the profit on ordinary activities after tax by £169,114 (2001 - £467,609 decrease). The change has also had the effect increasing shareholders' funds at 1 January 2002 by £227,869.

3. Turnover

	2002 £	2001 £
Brokerage	8,784,019	10,051,557
Geographical analysis of brokerage:		
UK	843,825	1,107,196
Europe	5,821,245	7,114,947
North America	1,232,763	1,245,829
Other	886,186	583,585
	<u>8,784,019</u>	<u>10,051,557</u>

The business activities of the company are primarily based in the United Kingdom, and this is where the company's operating profits are generated and its net assets are held.

4. Other operating income

	2002 £	2001 £
Investment income	754,665	1,224,813
Other income	4,611	4,342
	<u>759,276</u>	<u>1,229,155</u>

Notes to the accounts

at 31 December 2002

5. Staff costs

	2002 £	2001 £
Staff costs including directors' emoluments (note 6)		
Wages and salaries	2,476,268	4,838,745
Social security costs	297,714	296,689
Other pension costs	303,500	380,357
	<u>3,077,482</u>	<u>5,515,791</u>

The monthly average number of employees during the year was as follows:

	2002 No.	2001 No.
Accounts	—	5
Administration	—	5
Marine	17	17
Non-marine	30	54
	<u>47</u>	<u>81</u>

6. Directors' emoluments

	2002 £	2001 £
Emoluments	647,568	1,330,783
Payment to third party for services of directors	196,368	222,456
Pension contributions	51,505	67,200
	<u>895,441</u>	<u>1,620,439</u>

The emoluments of the highest paid director are as follows:

	2002 £	2001 £
Highest paid director		
Emoluments	210,624	283,529
Pension contributions	9,062	17,267
	<u>219,686</u>	<u>300,796</u>

	2002 No.	2001 No.
Members of company pension scheme	6	6

Notes to the accounts

at 31 December 2002

7. Operating profit

This is stated after charging/(crediting):

	2002 £	2001 £
Depreciation of fixed assets	137,061	95,992
Auditors' remuneration – audit services	32,500	32,000
– non-audit services	7,000	2,500
Operating lease rentals – plant and machinery	35,167	79,813
– land and buildings	307,000	307,000
(Profit)/loss on exchange	(40,322)	398,337

8. Interest payable

	2002 £	2001 £
Amounts relating to overdrafts and other loans repayable within five years	520	589

9. Tax on ordinary activities

	2002 £	2001 £ <i>Restated</i>
The taxation charge comprises:		
Current tax		
UK Corporation tax at 30% (2001 – 30%)	189,429	–
Total current tax	189,429	–
Deferred tax		
– Utilisation of tax losses	191,786	489,021
– Accelerated capital allowances	(22,672)	(4,202)
– Other timing differences	–	(17,210)
Tax on profit on ordinary activities	358,543	467,609

Notes to the accounts

at 31 December 2002

9. Tax on ordinary activities

Factors affecting the tax charge for the year

The tax rate of the year is lower than the standard rate of tax in the UK (30%). The differences are explained below:

	2002 £	2001 £
Profit on ordinary activities before tax	1,089,718	1,462,509
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 – 30%)	326,915	538,753
Effects of:		
Expenses not deductible for tax purposes	31,628	28,856
Capital allowances in period in excess of depreciation	22,672	4,202
Utilisation of tax losses	(191,786)	(489,021)
Other timing differences	–	17,210
Current tax charge for the year	189,429	–

10. Dividends

	2002 £	2001 £
Proposed final dividend	–	1,500,000

Notes to the accounts

at 31 December 2002

11. Tangible fixed assets

	<i>Computer Equipment and software £</i>	<i>Office equipment £</i>	<i>Total £</i>
Cost:			
At 1 January and 31 December 2002	795,449	484,845	1,280,294
Depreciation			
At 1 January 2002	724,691	404,510	1,129,201
Provided during the year	56,726	80,335	137,061
At 31 December 2002	781,417	484,845	1,266,262
Net book value at 31 December 2002	14,032	–	14,032
31 December 2001	70,758	80,335	151,093

12. Fixed asset investments

	<i>Unlisted investments £</i>	<i>Shares in subsidiary and associated undertakings £</i>	<i>Total £</i>
Cost			
At 1 January and 31 December 2002	118,114	1,577,900	1,696,014
Provision:			
At 1 January 2002	50,000	1,499,881	1,549,881
Provided in year	–	1,855	1,855
At 31 December 2002	50,000	1,501,736	1,551,736
Net book value at 31 December 2002	68,114	79,874	147,988
Net book value at 1 January 2002	68,114	78,019	146,133

Notes to the accounts

at 31 December 2002

12. Fixed asset investments (continued)

The undertakings at 31 December 2002 were as follows:

<i>Name of company</i>	<i>Country of registration (or incorporation)</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
<i>Subsidiaries</i>				
BMS Harris & Dixon Insurance Brokers Pty. Limited	Australia	Ordinary shares	100%	Reinsurance and insurance broking
BMS Harris & Dixon Praha a.s.	Czech Republic	Ordinary	100%	Reinsurance and insurance broking
BMS Harris & Dixon Slovakia a.s.	Slovak Republic	Ordinary Shares	100%	Reinsurance and insurance broking
<i>Associates</i>				
International Reinsurance Brokers Limited	England	Ordinary shares	50%	Reinsurance broking
B&HD Limited	England	Ordinary Shares	50%	Reinsurance broking
<i>Unlisted investments</i>				
Bosna Reosiguranje	Bosnia and Herzegovina	Ordinary Shares	5.4%	Reinsurance company

13. Debtors

	2002 £	2001 £ <i>Restated</i>
Insurance broking debtors	72,187,014	63,621,335
Amounts owed by other group companies	1,630,008	569,580
Other debtors	141,234	163,329
Tax and social security	—	30,312
Prepayments and accrued income	58,105	240,087
Pension contributions	—	12,661
Deferred tax	108,755	277,869
	<u>74,125,116</u>	<u>64,915,173</u>

The deferred tax assets represent amounts falling due after more than one year.

Notes to the accounts

at 31 December 2002

14. Insurance broking assets security and trust deed

On 24 June 1992 as required by Lloyd's Brokers Byelaw (No. 5 of 1988) the company entered into a trust deed under which all insurance broking account assets are subject to a floating charge held on trust by the Society of Lloyd's for the benefit of the insurance creditors, which at 31 December 2002 amounted to £89,111,930 (2001 - £90,588,928). The charge only becomes enforceable under certain circumstances as set out in the deed. The assets subject to this charge were:

	2002 £	2001 £
Bank balances	16,924,916	26,966,593
Insurance debtors	72,187,014	63,622,335
	<u>89,111,930</u>	<u>90,588,928</u>

15. Cash at bank and in hand

	2002 £	2001 £
Insurance bank accounts	16,924,916	26,966,593
Non-insurance bank accounts	192,890	54,508
	<u>17,117,806</u>	<u>27,021,101</u>

16. Creditors: amounts falling due within one year

	2002 £	2001 £
Insurance broking creditors	82,897,461	81,770,036
Amounts owed to other group companies	594,284	2,640,204
Taxation	189,429	—
Other creditors	727,570	1,276,858
Accruals	191,917	303,296
	<u>84,600,661</u>	<u>85,990,394</u>

17. Provision for other liabilities and charges

	At 1 January 2002 £	Movement in provision £	Utilisation £	At 31 December 2002 £
Provision for property costs	775,000	732,093	(902,093)	605,000

During 2001, the company moved from its existing leased premises to offices occupied by the rest of the BMS Group. Accordingly a provision was made to cover the ongoing lease costs whilst the property remained vacant. The provision was based on advice from the company's Chartered Surveyors. At the end of 2002 the property remains vacant and therefore the provision has been re-assessed, again based on advice from the company's Chartered Surveyors.

Notes to the accounts

at 31 December 2002

18. Deferred tax

	2002 £000	2001 £000 <i>Restated</i>
Accelerated capital allowances	51,131	28,459
Other timing differences	57,624	57,624
Tax losses carried forward	—	191,786
	<u>108,755</u>	<u>277,869</u>

19. Lease commitments

The company has annual commitments under operating leases for land and buildings and other assets which expire as follows:

	2002 £	2001 £
Within one year	317,962	351,708
Between two and five years	1,220,000	1,227,659
Five years and over	610,000	915,000
	<u>2,147,962</u>	<u>2,494,367</u>

20. Other financial commitments

The company has entered into forward foreign exchange contracts at the balance sheet date. The commitment amounts to £1,722,724 (2001 - £4,793,050).

21. Share capital

	2002 £	2001 £
Authorised Ordinary shares of £1 each	1,250,000	1,250,000
Allotted, called up and fully paid At 31 December 2002	<u>1,000,000</u>	<u>1,000,000</u>

Notes to the accounts

at 31 December 2002

22. Reconciliation of movements in shareholders' funds

	2002 £000	2001 £000
Opening equity shareholders' funds, as previously stated	5,190,237	5,227,728
Prior year restatement	277,869	745,478
Opening equity shareholders' fund, as restated	5,468,106	5,973,206
Profit attributable to shareholders	731,175	994,900
Dividends	–	(1,500,000)
Closing equity shareholders' funds	6,199,281	5,468,106

23. Contingent liabilities

The company has given indemnities in connection with the issue of Lloyd's Certificates of Insurance to certain overseas insurers, brokers and agents.

The company is a member of a mutual club through which part of the Errors and Omissions cover is placed. As with all mutual clubs the membership has a contingent liability for further calls. The latest accounts indicate that the directors consider the funds are adequate to meet its liabilities and no additional calls are anticipated.

24. Pension fund

The company operates a funded defined benefit pension scheme, for which most UK employees are eligible, providing benefits based on final pensionable salaries. The scheme's assets are held separately from those of the company and are managed, on behalf of the trustees, by Standard Life Investments.

This scheme was separated into two sub schemes (A scheme and B scheme) at 1 September 1995. Most employees who join the pension scheme as from 1 September 1995 are eligible for admission into the B scheme. New membership to the A scheme is restricted to employees who were previously denied entry due to their age.

The disclosures required by Financial Reporting Standard 17 ('FRS 17') in relation to the defined benefit scheme can be found in the accounts of the ultimate parent company, BMS Associates Limited.

25. Related parties

During the year the company entered into transactions, in the course of business and non-insurance related, with other related parties. The balances outstanding at 31 December 2002 were as follows:

	Insurance	Non-Insurance
International Reinsurance Brokers Limited	558,298	175,701
B&HD Limited	144,906	55,316

The company has a 50% interest in International Reinsurance Brokers Limited and B&HD Limited.

Notes to the accounts

at 31 December 2002

26. Parent undertaking

The company's immediate parent undertaking is H.D. Holdings Limited.

In the directors' opinion, the company's ultimate parent undertaking and controlling party is BMS Associates Limited, which is incorporated in Great Britain. Copies of the group accounts are available from Latham House, 16 Minories, London EC3N 1AX.