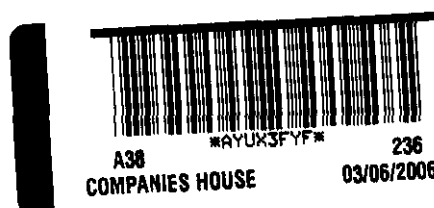


R J Kiln & Co Limited

*Annual Report and
Financial Statements
31st December 2005*

Registered Office
106 Fenchurch Street
London
EC3M 5NR

Registered No. 00729671



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Directors' report

The directors of R J Kiln & Co Limited (the Company) present their annual report together with the financial statements for the year ended 31st December 2005.

Principal activity and business review

The Company acts as an underwriting agent at Lloyd's, and during the year managed Kiln Combined Syndicate 510, Kiln Catastrophe Syndicate 557, Kiln Life Syndicate 308 and Kiln Mathers Non-Marine Syndicate 807.

The Company also acts as a service company for Kiln plc, Kiln Capital plc, Kiln Underwriting Limited, Kiln Underwriting (807) Limited, Kiln Underwriting (308) Limited and the managed syndicates, providing administrative services and settling expenses on behalf of those companies and being reimbursed on a cost basis.

Pension benefit obligation

FRS 17 Retirement Benefits required that with effect from 1 January 2005 a deficit on a defined benefit pension scheme be included in the financial statements. In restating the previous period only the gross deficit has been included as the reimbursement right from the syndicate participants was only established after 31 December 2004.

Both the gross pension deficit and the reimbursement right have been included in 2005.

Future developments

The company will continue to act as the managing agency for the syndicates and as a service company for other companies within the group.

Results and dividends

The profit for the year is as stated in the profit and loss account on page 9.

The directors declared and paid a dividend of £12,797,652 for the year ended 31st December 2005 (2004:nil).

Directors' and officers' liability insurance

Directors' and officers' liability insurance has been purchased by the ultimate parent company in respect of all group companies during the period.

Charitable donations

Charitable donations totalling £32,000 were made during the period (2004: £25,000).

Auditors

PriceWaterhouseCoopers resigned as auditors of the Company as at 13 June 2005. The directors have approved a written resolution in accordance with s 388(1) Companies Act 1985 to appoint Ernst & Young LLP as auditors of the company with immediate effect.

A resolution to reappoint Ernst & Young LLP as auditors of the Company will be proposed at the annual general meeting.

Directors' Interests

The directors of the Company throughout the year are listed below. No director held any beneficial interest in the shares of the Company or its subsidiaries at any time during the year. The beneficial interests of the directors in the ordinary shares of Kiln plc at 1st January 2005 and 31st December 2005, including such family interests as are required to be shown by Section 325 of the Companies Act 1985, were as follows:

	As at 1 st January 2005 or appointment	Acquisitions in the year	Disposals in the year	As at 31 st December 2005 or resignation/ retirement
G W Ball	112,820	48,351	-	161,171
A J Carrier	206,692	-	-	206,692
R D Chase	468,651	40,000	-	508,651
E G Creasy	192,226	40,000	-	232,226
J R Diamond (resigned 3 rd April 2006)	15,000	-	-	15,000
J Dover (appointed 3 rd April 2006)	-	-	-	-
C A S Franks	30,000	-	-	30,000
R G Hargreaves	56,550	-	-	56,550
S B Jedburgh	131,000	-	-	131,000
P M Letherbarrow	43,963	-	-	43,963
M A Lewis (resigned 14th January 2005)	28,560	-	-	28,560
M A Madden	4,890	1,110	-	6,000
S D Mathers	1,000,000	28,592	-	1,028,592
J P Percy (resigned 31 st March 2005)	-	-	-	-
T P Prifti	81,076	19,000	-	100,076
B D Shepherd	326,147	-	-	326,147
N J Cosh (appointed 10th January 2005)	25,000	10,714	-	35,714

Directors' share options

The following directors have been granted options over ordinary shares in Kiln plc. Options held and exercised in the year are as follows:-

Options A	At 1 st January 2005	Exercised on 1 May 2005	At 31 st December 2005	Gain £
R D Chase	172,400	-	172,400	-
S B Jedburgh	180,000	-	180,000	-
P M Letherbarrow	32,500	32,500	-	28,275

The number of options held by directors of the company following the adjustment detailed below is as follows:

Options B	At 1 January 2005	Options issued during the year	At 31 December 2005
A J Carrier	125,676	-	125,676
R D Chase	140,757	-	140,757
C A S Franks	95,514	-	95,514
R G Hargreaves	125,676	-	125,676
S B Jedburgh	190,172	-	190,172
P M Letherbarrow	95,514	-	95,514
M A Lewis	42,730	-	42,730
S D Mathers	187,677	-	187,677
T P Prifti	55,298	-	55,298
B D Shepherd	110,177	-	110,177

Options C	At 1 January 2005	Options issued during the year	At 31 December 2005
A J Carrier	147,559	-	147,559
R D Chase	86,896	-	86,896
C A S Franks	105,750	-	105,750
R G Hargreaves	147,559	-	147,559
S B Jedburgh	201,731	-	201,731
P M Letherbarrow	105,750	-	105,750
M A Lewis	46,727	-	46,727
S D Mathers	113,948	-	113,948
T P Prifti	91,814	-	91,814
B D Shepherd	85,257	-	85,257

Options D	At 1 January 2005	Options issued during the year	At 31 December 2005
E G Creasy	273,153	-	273,153

Options E	At 1 January 2005	Options issued during the year	At 31 December 2005
E G Creasy	319,980	-	319,980

Options A granted by the Kiln Employee Trust on 15 July 1998 over issued shares are exercisable for nil consideration. All options have been exercisable since 1 September 2002 and expire 17 August 2008.

Options B were granted by the Kiln plc remuneration committee on 15 July 1998 over unissued shares and were exercisable at a price of 130p per share between 8 July 2001 and 7 July 2008. In accordance with the rules of the scheme, the exercise price of options B was adjusted to 121.88p and then 116.58p, respectively, to take into account the dilutive effect of the rights issue of Kiln plc during 2002 and 2005.

Options C were granted by the Kiln plc Employee Share Trust on 27 July 1998 over unissued shares and were exercisable at a price of 182p per share between 8 July 2001 and 7 July 2008. In accordance with the rules of the

scheme the exercise price of options C was adjusted to 170.63p and then to 163.21p, respectively to take into account the dilutive effect of the rights issue of Kiln plc during 2002 and 2005.

Options D were granted by the Kiln plc remuneration committee on 1 January 2000 over unissued shares at the mid-market price of 61.5p per share and are exercisable between 1 January 2003 and 1 January 2010. The exercise price of these options are subject to an annual compound increase of 5.5% per annum since the date of the grant. In accordance with the rules of the scheme the option grant price was adjusted to 57.66p and then to 55.15p to take into account the dilutive effect of the rights issue of Kiln plc during 2002 and 2005. At 31 December 2005 the exercise price was 76.04p after taking into account the 5.5% per annum increase.

Options E were granted by the Kiln plc remuneration committee on 1 January 2000 over unissued shares are exercisable at 130p per share between 1 January 2003 and 1 January 2010. In accordance with the rules of the scheme the exercise price of options E was adjusted to 121.88p and then 116.58p to take into account the dilutive effect of the rights issue of Kiln plc during 2002 and 2005.

Employee Co-investment Plan (COIP)

On 27 June 2005, shareholders of Kiln plc approved the COIP which is a discretionary plan for the benefit of employees, including directors. Its purpose is to increase the interest of the employees in Kiln's business goals and results through share ownership.

The following awards were made to the directors on 29 March 2006, in respect of the 2005 financial year:

	Investment Award	Matching Award
Robert Chase	24,444	24,444
Edward Creasy	31,444	31,444
Andrew Carrier	9,722	9,722
Charles Franks	9,722	9,722
Robin Hargreaves	9,722	9,722
Marion Madden	11,111	11,111
Tim Prifti	6,944	6,944

Pension commitments

The company has commitments to M A Lewis and R J Butler who are past directors, with respect to the Defined Benefit pension scheme closed from 1 May 2003.

Statement of Directors' Responsibilities in respect of the Company

Company Law requires directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company at the end of the financial period and of the result of the Company for the year. The financial statements must be prepared in compliance with the required format and disclosures of the Companies Act 1985 and with applicable accounting standards (UK GAAP).

In addition, the directors are required to:

- select suitable accounting policies and 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 financial statements on a going concern basis unless it is inappropriate to assume the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for ensuring the annual report includes information required by the Listing Rules of the Financial Services Authority.

By order of the board



Keith Grant
Secretary

30th May 2006

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF R J KILN & CO LIMITED

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the Reconciliation of Movement in Shareholders Funds and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. *Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP

Registered auditor

London

30 May 2006

Profit and loss accountfor the year ended 31st December 2005

	Notes	2005 £'000	2004 <i>Restated</i> £'000
Turnover	2	23,422	21,501
Administrative expenses	5,6	(30,222)	(24,883)
Other operating income	3	25,964	22,497
Operating Profit	4	<u>19,164</u>	<u>19,115</u>
Interest receivable and similar income	10	775	2,505
Interest payable and similar charges	11	(579)	(3,600)
Other income	9	1,037	131
Profit on ordinary activities before tax		<u>20,397</u>	<u>18,151</u>
Tax on profit on ordinary activities	12	<u>(6,333)</u>	<u>(5,475)</u>
Profit for the financial year		14,064	12,676
Dividends		(12,798)	-
Retained profit for the year		<u>1,266</u>	<u>12,676</u>

The accounting policies and notes on pages 12 to 26 form part of these financial statements.

Statement of total recognised gains and losses
for the year ended 31st December 2005

	Notes	2005 £'000	2004 <i>Restated</i> £'000
Profit for the financial year		14,064	12,676
Recognition of reimbursement right	8	23,680	-
Actuarial (losses) / gains on pension scheme	8	(883)	(1,643)
Tax on items taken to equity		(6,839)	493
Total gains and (losses) recognised relating to the year		30,022	11,526
Prior year adjustment		(19,819)	
Total gains and (losses) recognised since last annual report		10,203	

Reconciliation of movements in shareholders' funds
for the year ended 31st December 2005

	2005 £'000	2004 <i>Restated</i> £'000
Profit for the financial year	14,064	12,676
Dividend	(12,798)	-
	1,266	12,676
Opening shareholders' funds (originally £23,679k before deducting prior year adjustment of £19,819k)	3,860	(7,666)
Recognition of reimbursement right	23,680	-
Actuarial (losses) / gains on pension scheme	(883)	(1,643)
Tax on items taken to equity	(6,839)	493
Closing shareholders' funds	21,084	3,860

The accounting policies and notes on pages 12 to 26 form part of these financial statements.

Balance Sheet as at 31st December 2005

	Notes	2005	2004
		£'000	Restated £'000
Fixed assets			
Tangible assets	13	5,309	3,542
Investments in group undertakings	14	1,055	1
		<u>6,364</u>	<u>3,543</u>
Current assets			
Debtors: Amounts due within one year			
Trade debtors		17	-
Due from group undertakings		95	3,620
Due from syndicates	15	24,673	13,205
Other debtors	15	931	2,780
Prepayments		393	270
Cash at bank and in hand		<u>8,967</u>	<u>2,857</u>
		35,076	22,732
Debtors: Amounts due after one year			
Retirement benefit obligation reimbursement right	8	11,701	-
Deferred tax asset	17	378	291
Due from syndicates	15	3,139	9,491
Other debtors	15	147	183
		<u>50,441</u>	<u>32,697</u>
Creditors: amounts falling due within one year			
Loans and other borrowings		(152)	(18)
Trade creditors		-	(108)
Due to group undertakings		(6,384)	(1,609)
Due to syndicates		(659)	-
Other creditors including taxation and social security	16	(7,485)	(8,422)
Accruals and deferred income		(5,758)	(1,477)
		<u>(20,438)</u>	<u>(11,634)</u>
Net current assets		<u>30,003</u>	<u>21,063</u>
Total assets less current liabilities		36,367	24,606
Creditors: amounts falling due after more than one year			
Due to syndicates	16	(1,293)	(927)
Retirement benefit obligation	8	(13,990)	(19,819)
Net assets		<u>21,084</u>	<u>3,860</u>
Capital and reserves			
Called up share capital	18	502	502
Share premium account	19	5	5
Capital redemption reserve	19	15	15
Profit and Loss account	19	20,562	3,338
Total equity shareholders' funds		<u>21,084</u>	<u>3,860</u>

The financial statements on pages 9 to 26 were approved by the board of directors on 30 May 2006 and were signed on its behalf by:

Edward Creasy

Chief Executive Officer

James Dover

Finance Director

The accounting policies and notes on pages 12 to 26 form part of these financial statements.

1. Accounting policies

1.1 Basis of presentation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and with applicable Accounting and Financial Reporting Standards.

In accordance with the exemption allowed under section 228 Companies Act 1985 group consolidated financial statements have not been prepared. The Company is itself a wholly-owned subsidiary of Kiln plc, incorporated in Great Britain and registered in England and Wales, which has produced group consolidated financial statements incorporating this company and its subsidiaries for the year ended 31st December 2005. The Company has also taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1.

1.2 Changes in accounting policy

The following Financial Reporting Standards, effective from 1 January 2005, have been applied to the financial statements.

- FRS20 – Share-based payments
- FRS21 – Events after the balance sheet date
- FRS25 – Financial instruments: disclosure and presentation, paragraphs 15 – 50
- FRS28 – Corresponding amounts

The following have been issued but not early adopted and management do not believe this will have a material financial impact on the financial statements.

- FRS23 – The effects of changes in foreign exchange rates
- FRS25 – Financial instruments: disclosure and presentation, excluding paragraphs 15 – 50 as above
- FRS26 – Financial instruments: measurement

1.3 Principle accounting policies

a. Turnover

Turnover comprises underwriting agency fees and underwriting profit commission which are recognised on the following bases:

Underwriting agency fees

Underwriting agency fees are recognised evenly over the underwriting year of account for which they are charged; and

Profit commission on managing agency activities

Profit commissions are receivable when the relevant Lloyd's year of account closes, normally after three years, and are received in cash when the syndicate's financial statements are dispatched to the capital providers.

The profit commission due is calculated by reference to the managing agency agreement and accounted for on an accruals basis as at the balance sheet date. The accrual for profit commission receivable from managed syndicates is recognised using an earnings pattern of 0%/50%/50% which represents the most reliable estimate of the three year development of a Lloyd's year of account. Profit commission is not therefore recognised in the opening year of account. 50% of the estimated ultimate profit commission balance is recognised in its second year of account, and the balance of profit commission to 100% is recognised in its third year of account.

b. Other Operating Income

Other operating income comprises Managing agency fees and recharges to non-group participants are recognised as the services are provided.

Accounting policies continued

c. Leases

Rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Assets held under finance leases are included at cost under tangible fixed assets. Cost is determined as the capitalised value of minimum lease payments as at the commencement of the lease. The assets are depreciated over the lease terms. The capital element of future payments is treated as a liability and the interest element is charged to the profit and loss account.

d. Pensions

The group operates a defined contribution pension scheme. The fund is valued every year by a professionally qualified independent actuary. Pension contributions to the scheme are charged to the profit and loss account when due.

The defined benefit (DB) scheme was closed as from 30th April 2003, having previously been closed to new members as from 19th January 2001. All defined benefit scheme members were transferred to the defined contribution scheme as from 1st May 2003, and no further ongoing individual contributions are made for these members to the defined benefit scheme.

The cost of providing benefits is determined by the Scheme Actuary with actuarial valuations for FRS17 being carried out at each balance sheet date.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The total pension scheme obligations are recognised on the balance sheet. Also recognised is a reimbursement asset reflecting amounts recoverable under the managing agency agreement from syndicates. The company secured agreement from members' agents effective 1 January 2005 to this treatment. Kiln considers that the credit risk associated with the Lloyd's syndicates is low and that therefore it is virtually certain that the syndicates will reimburse this amount in accordance with the advised actuarial funding plan.

e. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. They are depreciated on a straight-line method over the expected useful lives of each category of asset as follows:

Computers	3 years
Office furniture and equipment	4 years

Computer software is recognised as an asset when it meets the following criteria:

- a) It is identifiable
- b) Kiln has control over the asset, and
- c) It is probable that the future economic benefits embodied in the asset will flow to Kiln and/or the Names

Accounting policies continued

f. Deferred tax

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statement.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. It is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses.

Deferred tax is measured on a non-discounted basis. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

Notes to the financial statements

2. Turnover

	2005	2004
	£'000	£'000
Agency fees	5,208	5,043
Profit commission receivable	18,214	16,458
	<u>23,422</u>	<u>21,501</u>

All turnover arises from continuing operations and is derived wholly from the United Kingdom.

Certain directors are underwriting members of Lloyd's through the agency of a group company. Although the agency agreements entitle remuneration to be charged at normal commercial rates, by concession managing agent's fees and profit commissions are waived in respect of their directors. Had this concession not been allowed, the amount for turnover would be increased by £34,563 (2004: £9,966).

3. Other operating income

All group managed expenses are processed through R J Kiln and subsequently recharged to the relevant group companies or syndicates.

4. Operating profit

	Notes	2005	2004
		£'000	£'000
Operating profit is stated after charging:			
Staff costs	5	17,106	14,499
Auditors' remuneration for audit services	6	62	50
Depreciation of tangible fixed assets		2,429	2,372
Depreciation on capitalised leases		-	37
Operating lease rentals – office space		983	976
Finance lease		-	4
		<u>20,580</u>	<u>17,938</u>

5. Staff costs

Particulars of employees (including directors) are as set out below.

	2005	2004
	£'000	£'000
Employee costs for the period amounted to:		
Salaries and bonuses	12,569	10,250
Social security costs	1,443	1,234
Other pension costs	1,851	1,436
Profit commission	1,243	1,579
	<u>17,106</u>	<u>14,499</u>

The average monthly number of persons employed by the company during the period was 166, 112 administration and 54 syndicate staff, (2004: 162; 109 administration and 53 syndicate).

Many of the employees work predominantly on the affairs of group syndicates, and of the staff costs reported above, £5,434,245 (2004: £6,415,565) is directly attributable to group syndicates and has been borne by them.

Notes to the financial statements continued

6. Auditors' remuneration

	2005 £'000	2004 £'000
Remuneration for audit services	62	50
Remuneration for non-audit services	46	18
	<u>108</u>	<u>68</u>

The charges for non-audit services relate to £7,000 for taxation services, £10,000 for the business review advice, and £29,000 assurance work as new system development.

7. Directors' remuneration

	2005 £'000	2004 £'000
Fees as directors	-	-
Other emoluments	5,435	5,606
	<u>5,435</u>	<u>5,606</u>

Included in other emoluments are aggregate pension costs of £507,573 (2004 - £486,642).

12 out of the 15 directors have accrued benefits under the company's defined benefit pension scheme. On 30th April 2003, the defined benefit pension scheme was closed and consequently no further benefits accrue under this scheme. From May 2003, the company commenced contributions into its money purchase pension scheme on behalf of the directors which were previously accruing contributions in the defined benefit scheme.

13 out of 15 directors are accruing benefits under the company's money purchase scheme.

1 of the 15 directors exercised 32,500 options at an exercise price of 87p per share, the amount of gain was £28,275. Details of share options can be found in the Directors Report on page 4.

The remuneration of the highest paid director, E G Creasy, (E G Creasy in 2004) is disclosed in the table below. E G Creasy did not exercise any options in the year.

	2005 £'000	2004 <i>Restated</i> £'000
Fees and other emoluments	<u>574</u>	<u>886</u>
Defined benefit pension scheme - accrued pension per annum at end of period	<u>5</u>	<u>4</u>

The transfer value of the accrued pension benefit of E G Creasy increased by £23,345 and the value of the accrued pension increased due to inflation by £221 during the period.

Notes to the financial statements continued

8. Pension arrangements

The company provides pensions for its eligible employees through the R J Kiln & Co Limited Pension and Assurance Scheme ('the Scheme'). The assets of the scheme are held in a separate trustee-administered fund.

A pension benefit obligation arises in respect of the defined benefit (DB) funded scheme which was closed to all staff from 1 May 2003 and under which no further years of service obligations can accrue. Therefore under the projected unit method the current service cost will increase as members of the scheme approach retirement.

The company currently contributes to the DB scheme an amount equal to the contribution recommended by the current Scheme Actuary, Clair Gemmell, BSc, FFA, of HSBC Actuaries and Consultants Limited. The best estimate of the deficit funding contribution to the plan for 2006 calendar year is an amount of £2.2m (2005: £2.2m) of which £360k would be borne by R J Kiln & Co Limited.

In 2005 the syndicates managed by R J Kiln have been charged for their share (83.64%) of the pension deficit so that the pension deficit liability now comprises two components being the gross liability to the R J Kiln pension scheme and the amount recoverable from the syndicates. The right to reimbursement from the third party Names has been recognised as a separate asset on the balance sheet and where relevant, the disclosures below recognise this asset. As the recharge to the syndicates is directly proportioned to the underlying pension scheme deficit, the expected return on the reimbursement asset directly mirrors the expected returns set out below.

Analysis of the amount charged to the profit & loss

	31.12.05	31.12.05	31.12.04
	£'000	£'000	£'000
	100%	R J Kiln's Share	
Employer's current service cost	-	-	229
Expected return on pension scheme assets	(2,594)	(424)	(2,301)
Interest on pension scheme liabilities	3,542	579	3,366
Settlement (gains)/losses	(6,318)	(1,034)	-
	<u>(5,370)</u>	<u>(879)</u>	<u>1,294</u>

Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses

	31.12.05	31.12.04
	£'000	£'000
Actual return less expected return on scheme assets	4,079	590
Experience gain/(loss) arising on the scheme's liabilities	538	427
Changes in assumptions underlying the present value of scheme liabilities	<u>(10,012)</u>	<u>(2,660)</u>
Actuarial gain/(loss) recognised in STRGL	(5,395)	(1,643)
Recharged to Syndicates	<u>4,512</u>	<u>-</u>
R J Kiln's Share	<u>(883)</u>	<u>(1,643)</u>

Notes to the financial statements continued

Reconciliation of Surplus/(Deficit)

	31.12.05	31.12.04
	£'000	£'000
Surplus/(deficit) in scheme at beginning of the year	(28,313)	(26,949)
Movement in the year:		
Current service cost	-	(229)
Contributions	6,852	1,573
Past service costs	-	-
Other finance income	(948)	(1,065)
Actuarial gain/(loss)	(5,395)	(1,643)
Settlements	7,818	-
Surplus/(Deficit) in Scheme at end of the year	(19,986)	(28,313)
Reimbursement right at beginning of the year, gross of deferred tax	23,680	-
Reimbursement right at end of the year, gross of deferred tax	16,716	-

A. FRS17 – Accounting Convention

An actuarial valuation was carried out on 31 December 2005 by HSBC Actuaries and Consultants Limited. The major assumptions used by the actuary were;

	2005 (per annum) %	2004 (per annum) %	2003 (per annum) %	2002 (per annum) %
Rate of increase in salaries	5.00	5.00	5.00	5.00
Rate of increase of pensions in payment				
-benefits accrued prior to 1 st May 1999:	5.00	5.00	5.00	5.00
-benefits accrued after 1 st May 1999:	2.50	3.00	3.00	2.50
Rate of revaluation of deferred pensions in excess of GMP	5.00	5.00	5.00	5.00
Discount rate	4.80	5.40	5.50	5.50
Inflation assumption	2.50	3.00	3.00	2.50

The DB section part provided benefits on the basis of one forty-fifth of final salary for each year of pensionable employment. Certain members of the scheme have been guaranteed a two-thirds pension at normal retirement date, although their length of service will be less than that normally required to produce that level of pension: this has resulted in some additional funding for these members. The 5% rate of revaluation of deferred pensions is the subject of a legal underpin and may not therefore be changed.

B. Asset value in the DB Scheme under FRS17

	Actual rate of return		Long-term rate of return expected		Value at 31 December	
	2005 %	2004 %	2005 %	2004 %	2005 £'000	2004 £'000
Equities	22.7	10.7	7.75	8.00	22,486	20,501
Bonds	11.5	8.1	4.80	5.40	19,626	16,016
Cash	4.7	4.4	4.50	4.00	326	844
Total market value of assets			6.36	6.80	42,438	37,361

Notes to the financial statements continued

Deficit in Defined Benefit Scheme	Value at 31.12.05 £'000	Value at 31.12.04 £'000	Value at 31.12.03 £'000	Value at 31.12.02 £'000
Total market value of assets	42,438	37,361	35,369	31,698
Present value of Scheme liabilities	(62,424)	(65,674)	(62,318)	(59,146)
Deficit in the Scheme	(19,986)	(28,313)	(26,949)	(27,448)
Related deferred tax asset	5,996	8,494	8,085	8,234
Net pension liability	(13,990)	(19,819)	(18,864)	(19,214)
History of experience gains and losses	31.12.05 £'000	31.12.04 £'000	31.12.03 £'000	31.12.02 £'000
Difference between the expected and actual return on scheme assets:				
Amount	4,079	590	2,238	(6,787)
percentage of scheme assets	10%	2%	6%	(21%)
Experience gain (loss) on scheme liabilities:				
Amount	538	427	(554)	615
percentage of present value of the scheme liabilities	1%	1%	(1%)	1%
Total amount recognised in STRGL:				
Amount	(5,395)	(1,643)	1,010	(11,650)
percentage of present value of the scheme liabilities	7%	(3%)	2%	(20%)

Sensitivity Analysis

The valuation of the Scheme is highly sensitive to interest rates. The Scheme's Actuary used a reference interest rate as the discount rate to discount the value of future pension obligations back to the balance sheet date. The reference used as at 31st December 2005, was 4.80%, which equated to the interest rate on a selection of corporate bonds with a duration greater than 15 years.

The valuation of the Scheme is therefore highly sensitive to movements in this reference Corporate Bond interest rate. This is demonstrated in the table below:

Liability recognised in the balance sheet	No change in Discount Rate £'000	1% Rise in Discount Rate £'000	1% Fall in Discount Rate £'000
Gross Deficit	19,986	12,899	29,102
Net Deficit after tax	13,990	9,029	20,372

Notes to the financial statements continued**C. Defined Contribution and Personal Pension Schemes**

The company established a money purchase (defined contribution) pension scheme on 19 January 2001 for new staff. All staff remaining in the DB scheme were transferred to the DC scheme on 30 April 2003.

The ongoing funding rate for the Money Purchase (defined contribution) section is 15%, and for employees who were in the DB scheme the funding rate is between 15% and 30%.

In addition to the new money purchase section of the Scheme, the company also contributes to a number of individual benefit plans; in particular, a FURBS on behalf of Edward Creasy and various Personal Pension Plans and Executive Pension Plans for a number of other employees.

Employer contributions made in respect of the accounting period amounted to:

	2005 £'000	2004 £'000
Defined benefit scheme	6,852	1,513
Money purchase scheme	1,777	1,281
Other personal pension plans	66	47
Total	8,695	2,841

D. The Pension Trust

R J Kiln, in common with many companies with a defined benefit (DB) pension scheme, has a deficit on the scheme's overall funding. Rather than take the traditional route of relying solely on increased funding and movements in the financial markets, Kiln is also tackling the deficit having established a Pension Trust. This approach will enable the company to fulfil its obligations to the scheme at the same time as allowing it access to the funds if and when the scheme moves from a funding deficit to a surplus. Funding is made in to the Trust periodically. The level of this funding will be determined by reference to the overall net pension scheme deficit on the balance sheet. The Pension Trust received an initial funding of £5m during 2005, representing the discounted value of future deficit funding payments from R J Kiln to the scheme, net of the imputed tax credit.

E. Enhanced Transfer Value Initiatives

'A'-Day gives individuals more flexibility in their pension arrangements. Individuals' circumstances may make it more attractive to have full control over their pension assets, and use, for example, a SIPP or GPPP. In recognition of this opportunity for greater personal control over pension assets, the company has begun a series of initiatives broadly grouped under a project entitled the Enhanced Transfer Value (ETV) Initiatives. This gives individuals the opportunity of leaving the DB scheme and having their ETV paid either in cash or to another pension arrangement.

9. Other income

	2005 £'000	2004 £'000
Gain on enhanced transfer value initiatives	1,034	-
Sundry income	3	131
	1,037	131

Notes to the financial statements continued

10. Interest receivable and similar income

	2005 £'000	2004 <i>Restated</i> £'000
Bank interest	349	199
Other interest	2	5
Expected return on pension scheme assets	424	2,301
	<u>775</u>	<u>2,505</u>

11. Interest payable and similar charges

	2005 £'000	2004 <i>Restated</i> £'000
Finance lease and loan interest	-	5
Finance cost relating to pension scheme	579	3,595
	<u>579</u>	<u>3,600</u>

12. Tax on profit on ordinary activities

a. Analysis of charge in current period

	2005 £'000	2004 <i>Restated</i> £'000
UK Corporation Tax on taxable result at 30% (2004:30%)		
Current Tax:		
UK Corporation tax on profits of the period	5,620	5,618
Adjustments in respect of previous periods	126	294
Total current tax (note 12b)	<u>5,746</u>	<u>5,912</u>
Deferred Tax:		
Origination and reversal of timing differences	(87)	(521)
Pension cost charge in excess of pension cost relief	674	84
Total Deferred tax (note 17)	<u>587</u>	<u>(437)</u>
Tax on profit on ordinary activities	<u>6,333</u>	<u>5,475</u>

Notes to the financial statements continued

b. Factors affecting tax charge for the period

	2005 £'000	2004 <i>Restated</i> £'000
Profit on ordinary activities before tax	20,397	18,151
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2004:30%)	6,119	5,445
Effects of:		
Expenses not deductible for tax purposes	104	(264)
Depreciation in excess of capital allowances	71	521
Pension cost charge in excess of pension cost relief	(674)	(84)
Adjustments in respect of previous periods	126	294
Current tax charge for period (note 12a)	5,746	5,912

c. Factors that may affect future tax charges

Based on current capital investment plans, we expect depreciation to be in excess of capital allowances in future years.

13. Tangible Fixed Assets

	Office furniture etc.		Computer hardware and software		Total
	Owned	Leased	Owned	Development	
	£'000	£'000	£'000	£'000	£'000
Book Cost					
Cost at 1 st January 2005	1,558	180	8,462	508	10,708
Additions	135	-	2,259	1,802	4,196
At 31st December 2005	1,693	180	10,721	2,310	14,904
Depreciation					
At 1 st January 2005	(1,052)	(180)	(5,934)	-	(7,166)
Charge for the year	(316)	-	(1,927)	(186)	(2,429)
At 31st December 2005	(1,368)	(180)	(7,861)	(186)	(9,595)
Net Book Value					
31 st December 2005	325	-	2,860	2,124	5,309
31 st December 2004	506	-	2,528	508	3,542

The depreciation charged for the year was £2,429,000 (2004: £2,409,000).

Notes to the financial statements continued

14. Investments in Group undertakings

	2005 £'000	2004 £'000
Investment in subsidiary undertakings	1	1
Investments in associated undertakings	1,054	-
	<u>1,055</u>	<u>1</u>

Investment in group undertakings are stated at the lower of cost and directors' valuation. They comprise investments in subsidiaries and associates as detailed below. All companies are direct subsidiaries, incorporated in Great Britain and registered in England and Wales, unless otherwise indicated.

Investment in subsidiary undertakings

Kiln Trustees Limited, a company acting as trustee of the Kiln Employee Trust. The company owns shares in Kiln plc, and manages the operation of the Kiln Trustee Limited unapproved share option Scheme 1998.

100% of the issued share capital, represented by 1 ordinary share of £1.

Kiln South Africa (Proprietary) Limited, incorporated in South Africa, commenced trading on 1st September 1999, writing personal lines and commercial business under a binding authority into Syndicate 510. All the risks and rewards of owning this company are due to the members of Syndicate 510. 100% of the issued share capital, represented by 1 ordinary shares of SAR1, fully paid.

R J Kiln & Co No1 Limited, now dormant, was previously a service company for motor and other personal and commercial lines business. 100% of the issued share capital, represented by 1,000 ordinary shares of £1, fully paid.

R J Kiln & Co No2 Limited, a dormant company wholly owned by R J Kiln & Co No1 Limited. 100% of the issued share capital, represented by 1,000 ordinary shares of £1, fully paid.

Investment in associated undertakings

International Marine (Underwriting Agency) Ltd

In 2005 R J Kiln & Co Limited acquired 33% of International Marine (Underwriting Agency) Limited which specialises in marine and marine cargo insurance business and has an accounting date of 31 December. The beneficial owner is Syndicate 510 and all profits or losses are passed on to the capital providers supporting this syndicate. Kiln is entitled to appoint one of the four directors of the board of the company.

Notes to the financial statements continued

15. Debtors

	2005 £'000	2004 £'000
Due within one year;		
Due from syndicates		
Due from group syndicates	106	774
Profit commission due from syndicates	24,567	12,431
	<u>24,673</u>	<u>13,205</u>
Other debtors		
V.A.T.	805	609
Home loans due from employees	27	19
Other debtors	99	2,152
	<u>931</u>	<u>2,780</u>
Due after more than one year;		
Due from syndicates		
Profit commission due from syndicates	3,319	9,491
	<u>3,319</u>	<u>9,491</u>
Other debtors		
Home loans due from employees	147	183
	<u>147</u>	<u>183</u>

16. Creditors

	2005 £'000	2004 £'000
Due within one year:		
Other creditors including taxation and social security		
UK Corporation tax payable	6,633	5,618
Taxation and social security	464	2,804
Other creditors	388	-
	<u>7,485</u>	<u>8,422</u>
Due after more than one year and within five years:		
Due to syndicates		
Profit commission due to underwriters	244	927
Loan from Group syndicates	1,049	-
	<u>1,293</u>	<u>927</u>

Notes to the financial statements continued

17. Deferred Taxation

	2005	2004
	£'000	<i>Restated</i> £'000
Decelerated/(accelerated) capital allowances	378	291
Expenses to be relieved in future periods:		
Deferred tax on retirement benefit obligation	5,996	8,494
Deferred tax asset	6,374	8,785
Expenses to be incurred in future periods:		
Deferred tax on retirement benefit obligation reimbursement right	(5,015)	-
Deferred tax liability	(5,015)	-
Net deferred tax asset	1,359	8,785
Deferred taxation:		
Balance at the beginning of the year	8,785	(230)
Deferred tax charge in the profit & loss account (note 12a)	(587)	437
Deferred tax charged to the statement of total recognised gains and losses	(6,839)	8,578
Balance at 31st December	1,359	8,785

The deferred tax asset at 31st December 2005 is included in debtors.

18. Called up share capital

	2005	2004
	£'000	£'000
Authorised: 1,000,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid: 502,251 ordinary shares of £1 each	502	502

19. Movement in reserves

	Capital redemption Reserve £'000	Share Premium Account £'000	Profit and loss account £'000
At 1 st January 2005	15	5	23,157
As previously reported			
Prior Year Adjustment	-	-	(19,819)
At 1 st January 2005 restated	15	5	3,338
Profit for the period	-	-	14,064
Dividends Paid during the year	-	-	(12,798)
Recognition of reimbursement right	-	-	23,680
Actuarial losses on pension scheme	-	-	(883)
Tax on items taken directly to equity	-	-	(6,839)
At 31st December 2005	15	5	20,562

Notes to the financial statements continued

20. Contingent liabilities and guarantees

- a) The Company acts as guarantor in respect of house purchase loans totalling £169,650 (2004: £195,151) to group employees other than directors.
- b) The Company has guaranteed the liabilities in respect of Kiln South Africa to Tesso Trading 119 (Pty) Limited in respect of the offices of Kiln South Africa (Pty) Limited situated in Cape Town amounting to SAR 65,452.
- c) Following the assignment of the lease of Link House, Knightrider Court, Maidstone (previously the offices of Link Insurance Services Limited) to Rubicon Corporation (Rubicon), R J Kiln & Co Limited continues to guarantee the performance of the lessee's covenants by Rubicon until R J Kiln & Co Limited is released from its obligations by the Landlord of the property.

21. Annual commitments under operating leases

	2005	2004
	£'000	<i>Restated</i> £'000
Land and buildings:		
Expiring within 1 year	980	980
Expiring between 1 and 5 years	3,920	3,920
Expiring after 5 years	5,390	6,370
	10,290	11,270

The company's commitment under operating lease is £979,973 up to 24th June 2016 for the rental of its offices at 106 Fenchurch Street, London, subject to reviews at 24th June 2006, 24th June 2011 and 23rd June 2016.

22. Related parties

In accordance with FRS8 the company is exempt from disclosing transactions with entities that are part of the same group on the basis that the consolidated financial statements in which the company is included (Kiln plc consolidated financial statements) are publicly available.

23. Events after balance sheet date

R J Kiln is the guarantor of a 25 year term lease, which commenced on 25 March 1990, in respect of Link House, Knightrider Court, Maidstone. In the event that the current tenant should fail to pay its annual rental charge of £279,890, then R J Kiln will be liable for such sums as guarantor. Subsequent to the balance sheet date the tenant went into administration.

24. Ultimate parent company and controlling party

The company's ultimate parent company and controlling party is Kiln plc incorporated in Great Britain and registered in England and Wales. Copies of the consolidated financial statements of Kiln plc are available from 106 Fenchurch Street, London EC3M 5NR.