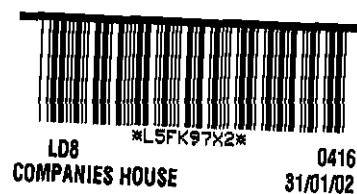


**HEATH LAMBERT LIMITED**  
**(formerly Lambert Fenchurch Limited)**

**REPORT & ACCOUNTS**

**31 MARCH 2001**

Registered Number: 1199129



**DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2001**

The directors present their annual report together with the audited accounts of the Company for the year ended 31 March 2001.

**ACTIVITIES AND REVIEW OF THE BUSINESS**

The principal activity of the Company, an accredited Lloyd's Broker and a member of the General Insurance Standards Council, continues to be that of insurance broking and the provision of a full range of insurance broking services in the United Kingdom and abroad. During the year, the insurance broking business of Heath Insurance Broking Limited was transferred to the Company and the trading results of that business have been included in the Company's profit and loss account with effect from 1 April 2000. At the same time, the Company transferred certain of its non-trading assets and liabilities to the group's management services company, Heath Lambert Management Limited.

The expansion and growth of the Company's business has resulted in brokerage income growing by over 50% to £140,631,000. The directors are confident that the business will continue to grow profitably in the future.

The Company's profit after taxation amounted to £13,515,000 (2000: loss of £11,023,000). No interim dividend (2000: £nil) was paid during the year. The directors propose to pay a final dividend for the year of £8,000,000 (2000: £nil). Accordingly, the retained profit of £5,515,000 (2000: loss of £11,023,000) has been transferred to reserves.

**SIGNIFICANT EVENTS**

On 3 July 2000 the Company changed its name to Heath Lambert Limited.

During the year, the Company issued 10,000,000 ordinary shares to fund the purchase of certain of the trading assets and liabilities of Heath Insurance Broking Limited, a fellow group undertaking.

**PERSONNEL**

Information on the Company's activities and consultation with staff is provided regularly through various management communication channels. These include the circulation of internal bulletins, notices and press releases and meetings and presentations by senior management at major locations and provincial offices. The Company is committed to the principle of equal opportunity and ensuring that employees are not discriminated against in recruitment, career development or promotion.

Consultation with employees and their representatives has continued at all levels with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole.

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 March 2001 (Continued)**

**DIRECTORS**

The directors of the Company who held office during the year and to the date of this report were:

WD Bloomer	(Appointed 6 October 2000)	RM Merttens	(Resigned 12 May 2000)
MA Bruce		CR Mitchell	(Resigned 6 September 2000)
HC Champion		JP Proctor	(Appointed 1 February 2001)
A Colosso		PD Smith	(Appointed 26 March 2001)
JR Crisford		CJT Stewart	(Appointed 20 October 2000)
RJ Ewen	(Appointed 8 August 2000)	RN Thomas	(Appointed 9 August 2000)
JD Forder		D Thornton	
RA Hems	(Appointed 4 July 2000)	JJC Underwood	(Appointed 8 September 2000)
	(Resigned 30 June 2001)		
MC Hooper	(Resigned 20 October 2000)	TG Watson	(Resigned 7 August 2000)
DA Hopwood		NW Weyman	(Appointed 15 September 2000)
AG Jones		SRD Wilson	(Resigned 1 August 2000)
MH Kier	(Appointed 4 July 2000)	DC Woodward	(Resigned 1 August 2000)

**DIRECTORS' INTERESTS**

None of the directors held any beneficial interest in the share capital of the Company. The beneficial interests, including family interests, in the securities of the ultimate parent undertaking, HLF Insurance Holdings Limited, according to the register of directors' interests maintained in compliance with the Companies Act 1985, are as follows:

	As at 31 March 2001			As at 31 March 2000		
	Ordinary Shares	Preference shares of £1	11% Unsecured loan stock	Ordinary Shares	Preference shares of £1	11% Unsecured loan stock
MA Bruce	4,750	-	-	4,750	-	-
HC Champion	58,800	71,208	52,992	58,500	69,660	51,840
A Colosso	20,080	-	-	20,080	-	-
JR Crisford	46,409	7,268	5,409	46,109	5,720	4,257
JD Forder	25,050	1,548	1,152	24,750	-	-
DA Hopwood	1,000	5,160	3,840	-	-	-
MH Kier	90,201	38,455	21,664	90,201*	38,455*	21,664*
JP Proctor	62,772	49,660	28,256	62,772*	49,660*	28,256*
PD Smith	40,890	1,548	1,152	40,890*	1,548*	1,152*
CJT Stewart	26,937	20,747	11,968	26,937*	20,747*	11,968*
RN Thomas	4,800	14,448	15,744	4,800*	14,448*	15,744*
D Thornton	3,325	6,837	5,088	3,025	5,289	3,936
JJC Underwood	64,745	38,455	21,664	53,019*	38,455*	21,664*
NW Weyman	71,745	10,320	7,680	71,745*	10,320*	7,680*

\* Number held on date of appointment.

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 March 2001 (Continued)**

The following directors held options over the securities of HLF Insurance Holdings Limited at 31 March 2001:

	Ordinary Shares	Preference shares of £1	11% Unsecured loan stock	Date of Grant	Date Option Expires
MA Bruce	33,750	18,060	13,440	16.12.99	9.12.09
HC Champion	-	-	-	16.12.99	9.12.09
A Colosso	39,420	49,020	36,480	16.12.99	9.12.09
JR Crisford	9,891	51,040	37,983	16.12.99	9.12.09
JD Forder	24,750	23,220	17,280	16.12.99	9.12.09
DA Hopwood	14,000	20,640	15,360	16.12.99	9.12.09
AG Jones	8,100	15,996	11,904	16.12.99	9.12.09
JP Proctor	18,040	-	-	16.12.99	15.11.06
PD Smith	4,510	-	-	16.12.99	15.11.06
D Thornton	2,175	11,223	8,352	16.12.99	9.12.09
JJC Underwood	18,040	-	-	16.12.99	15.11.06
NW Weyman	9,020	-	-	16.12.99	15.11.06

Options in HLF Insurance Holdings Limited are normally exercisable in the event of a listing or sale of HLF Insurance Holdings Limited.

**DONATIONS**

During the year donations to charities by the Company amounted to £nil (2000: £22,481). There were no political donations in the year (2000: £nil).

**RESPONSIBILITIES OF THE DIRECTORS**

Company law requires the directors to prepare financial statements 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 financial statements, 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 financial statements;
- prepare the financial statements 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 financial statements 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.

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 March 2001 (Continued)**

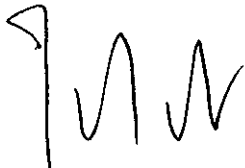
**PAYMENTS TO SUPPLIERS**

The Company has no non-insurance related trade creditors. All such creditors are paid by Heath Lambert Management Limited, a fellow group undertaking.

**AUDITORS**

The Auditors, PricewaterhouseCoopers, have indicated their willingness to be re-appointed and, in accordance with Section 384 of the Companies Act 1985, a resolution proposing their re-appointment will be put to the Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, consisting of a stylized 'J' followed by several loops and a final upward stroke.

HLF Corporate Services Limited  
Corporate Secretary  
Friary Court  
Crutched Friars  
London EC3N 2NP

21 January 2002

**AUDITORS' REPORT**

To the members of Heath Lambert Limited.

We have audited the accounts on pages 6 to 21 which have been prepared in accordance with the accounting policies set out on pages 8 to 10.

**Respective responsibilities of Directors and Auditors**

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 which we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

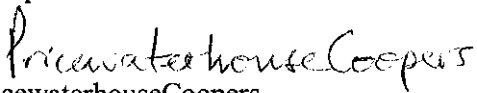
**Basis of audit opinion**

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

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

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31 March 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY

21 January 2002

**HEATH LAMBERT LIMITED**  
**(Formerly Lambert Fenchurch Limited)**

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**PROFIT AND LOSS ACCOUNT**  
For the year ended 31 March 2001

	Notes	<u>2001</u> £'000	<u>2000</u> £'000
<b>Turnover:</b>			
Continuing operations	3	140,631	93,539
Operating expenses		<u>(134,925)</u>	<u>(108,035)</u>
<b>Broking Profit/(Loss)</b>		5,706	(14,496)
Other operating income	5	<u>-</u>	<u>8,775</u>
<b>Operating Profit/(Loss)</b>	4	5,706	(5,721)
Write-off of tangible fixed assets		-	(558)
Write-off of intangible fixed assets		-	(5,664)
Interest receivable	6	9,996	2,153
Interest payable	6	<u>-</u>	<u>(1,230)</u>
<b>Profit/(Loss) On Ordinary Activities Before Taxation</b>		15,702	(11,020)
<b>Taxation On Profit/(Loss) On Ordinary Activities</b>	7	<u>(2,187)</u>	<u>(3)</u>
<b>Profit/(Loss) on Ordinary Activities After Taxation</b>		13,515	(11,020)
Dividends paid and proposed	8	<u>(8,000)</u>	<u>-</u>
<b>Retained Profit/(Loss) for the Financial Year</b>	18	<u>5,515</u>	<u>(11,020)</u>

Results for the current and prior year are attributable to continuing operations.  
There are no recognised gains and losses other than those reflected in the profit and loss account.

The notes on pages 8 to 21 form part of these accounts.

**HEATH LAMBERT LIMITED**  
**(Formerly Lambert Fenchurch Limited)**

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BALANCE SHEET - 31 March 2001

	Notes	2001 £'000	2000 £'000
<b>Fixed Assets</b>			
Intangible assets	9	734	4,542
Tangible assets	10	-	12,982
Investments in subsidiary undertakings	11	-	-
Other investments	11	-	260
		<u>734</u>	<u>17,784</u>
<b>Current Assets</b>			
Debtors - Amounts falling due within one year	12	2,079,685	899,691
-Amounts falling due after one year	12	10,000	7,068
Deposits, cash and short-term investments	13	137,007	48,509
		<u>2,226,692</u>	<u>955,268</u>
<b>Creditors</b>			
Amounts falling due within one year	14	(2,183,481)	(896,107)
<b>Net Current Assets</b>		<u>43,211</u>	<u>59,161</u>
<b>Total Assets Less Current Liabilities</b>		43,945	76,945
<b>Creditors</b>			
Amounts falling due after more than one year	15	(10,463)	(59,097)
<b>Provisions For Liabilities and Charges</b>	16	(2,411)	(2,292)
		<u>31,071</u>	<u>15,556</u>
<b>Capital and Reserves</b>			
Called up share capital	17	25,000	15,000
Profit and loss account	18	6,071	556
<b>Equity Shareholders' Funds</b>	19	<u>31,071</u>	<u>15,556</u>

Approved by the Board on 21 January 2002 and signed on its behalf by:



R N Thomas  
 Director

The notes on pages 8 to 21 form part of these accounts.



1. TRADING ACTIVITIES

During the year the Company's business was, in part, carried on by certain insurance broking group undertakings acting as agents for the Company. No remuneration was payable to these subsidiary undertakings and each was indemnified for all expenses and liabilities arising out of such agency.

2. ACCOUNTING POLICIES

(a) GROUP ACCOUNTS

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. There have been no changes to the Group's accounting policies during the year, other than the inclusion of deferred tax on a full rather than partial provision basis under FRS19, "Deferred Tax" which was adopted early. Group accounts have not been prepared at 31 March 2001 as the Company is a wholly owned subsidiary undertaking of another body corporate incorporated in Great Britain and these accounts are publicly available. The results of the Company and its subsidiaries have been included in the group accounts of Heath Lambert Group Limited.

(b) TURNOVER

Turnover represents the aggregate of net brokerage, fees, commission and other income, including that arising as a result of run-off activity in the market. Brokerage is recognised when premiums are debited to the client or at the date of inception of the risk. Brokerage on return or additional premiums is generally recognised when it arises.

(c) SYSTEMS DEVELOPMENT COSTS

Costs in connection with the development of improved data handling systems are capitalised as they are incurred. These costs are then written off in equal annual instalments over three years, commencing with the year in which benefits arise from the introduction of these systems. The carrying value is assessed annually and further provision, where appropriate, is made for any impairment in value.

(d) GOODWILL

Goodwill in respect of acquisitions prior to 31 March 1999 has been written off direct to reserves. Goodwill in respect of subsequent acquisitions of business portfolios has been capitalised at cost and amortised on a straight-line basis over the estimated useful life not exceeding twenty years.

(e) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible assets are stated at cost less accumulated depreciation. Depreciation is provided in equal annual instalments at rates calculated to provide for the cost of the assets over their anticipated useful lives as follows:

Short leasehold land and buildings	Period of lease
Furniture and equipment	Five to twenty years
Motor vehicles	Four years

**2. ACCOUNTING POLICIES (Continued)****(f) DEFERRED TAXATION**

Deferred taxation is recognised in respect of all timing differences between taxable and booked income and expenditure that have originated but not reversed at the balance sheet date to the extent that they are recoverable. Deferred taxation is not recognised on permanent differences.

**(g) FOREIGN CURRENCIES**

Assets and liabilities in foreign currencies are expressed in sterling at exchange rates ruling at the Balance Sheet date. Income earned in foreign currencies is recognised in the Profit and Loss Account at the exchange rate ruling at the date of the transaction or, where a related forward exchange contract has been entered into, at the rate specified in the forward contract. All realised exchange differences are dealt with in the result before taxation.

**(h) INSURANCE BROKING DEBTORS AND CREDITORS**

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable as principals for amounts arising from such transactions. Notwithstanding these legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities. This recognises that the insurance broker is entitled to retain the investment income on any cash flows arising from these transactions.

Debtors and creditors arising from transactions between clients and insurers (e.g. a premium or a claim) are recorded simultaneously. Consequently, there is a high level of correlation between the totals reported in respect of insurance broking debtors and insurance broking creditors.

The position of the insurance broker as agent means that the credit risk is borne by the principals. There can be circumstances where the insurance broker acquires credit risk - through statute, or through the act or omission of the insurance broker or one of the principals. There is much legal uncertainty surrounding the circumstances and the extent of such exposures. However, the total of insurance broking debtors appearing in the balance sheet is not an indication of credit risk.

It is normal practice for insurance brokers to settle accounts with other intermediaries, clients, insurers and market settlement bureaux on a net basis. Thus, large changes in both insurance broking debtors and creditors can result from comparatively small cash settlements. For this reason, the totals of insurance broking debtors and creditors give no indication of future cash flows.

The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Financial Reporting Standard No. 5 "Reporting the Substance of Transactions" requires that offset of assets and liabilities should be recognised in financial statements where, and only where, the offset would survive the insolvency of the other party. Accordingly, only such offsets have been recognised in calculating insurance broking debtors and creditors.

NOTES TO THE ACCOUNTS - 31 March 2001 (Continued)

2. ACCOUNTING POLICIES (Continued)

(i) INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary and associated undertakings in the accounts of the company are stated at cost less provision for any impairment in value.

(j) SHORT TERM INVESTMENTS

Investments in short-term securities held to maturity are valued at cost, adjusted for the amortisation of discounts or premiums to redemption. The difference between cost and the redemption principal amount is amortised to the profit and loss account on a straight line basis over the life of the security.

(k) OPERATING LEASES

Lease payments in respect of operating leases are charged against profit as incurred.

(l) FINANCE LEASES

Assets acquired under finance leases are capitalised as tangible fixed assets and stated at cost less accumulated depreciation. Interest included within lease payments is charged to the profit and loss account over the period of the lease at a rate which reflects the capital repayments outstanding.

(m) INTEREST RECEIVABLE

Interest receivable is recognised in the Profit and Loss Account as earned.

(n) PENSION COSTS

The regular costs, and variations thereto, of providing retirement pensions are charged to the Profit and Loss Account over the periods benefiting from the employees' service on the basis of a constant percentage of current and estimated future salaries.

(o) CASH FLOW STATEMENT AND RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of Heath Lambert Group Limited and is included in the consolidated financial statements of Heath Lambert Group Limited which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996). The Company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are part of the Heath Lambert Group Limited or investees of the Heath Lambert Group Limited.

NOTES TO THE ACCOUNTS - 31 March 2001 (Continued)

3. SEGMENTAL REPORTING

All turnover is derived from within the United Kingdom from one class of business. Profit before taxation and net assets of the Company all relate to UK activities. The geographic analysis of turnover by location of client is as follows:

	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
UK	86,919	57,807
Continental Europe	16,412	10,851
Asia & Australasia	11,936	8,138
The Americas	25,364	16,743
	<u>140,631</u>	<u>93,539</u>

The above table analyses turnover by the address of the client from whom the business is derived. This does not necessarily reflect the original source or location of the business. All turnover in respect of continuing operations relates to insurance broking and related services.

4. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is arrived at after charging the following:	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Salaries	55,863	49,011
Social security costs	5,481	4,361
Other pension costs (note 24)	5,735	4,966
Amortisation of systems development costs (note 9)	-	2,652
Amortisation of goodwill (note 9)	42	24
Write-off of tangible fixed assets	-	558
Write-off of intangible fixed assets	-	5,664
Depreciation:		
On owned assets	-	2,315
On assets held under finance leases	-	1,020
Operating lease charges:		
Plant and machinery	-	1,799
Other	-	3,851
Auditors' remuneration – audit services	<u>228</u>	<u>267</u>

All administrative functions are performed by staff employed by Heath Lambert Management Limited, a fellow group undertaking. The management charge of £130,329,531 levied represents the allocation of salary and other costs associated with the administration of the Company.

NOTES TO THE ACCOUNTS - 31 March 2001 (Continued)

5. OTHER OPERATING INCOME

	<u>2001</u> £'000	<u>2000</u> £'000
Rent receivable	-	517
Management charges to group undertakings	-	8,257
Other income	-	1
	<u>-</u>	<u>8,775</u>

6. INTEREST

	<u>2001</u> £'000	<u>2000</u> £'000
<b>RECEIVABLE</b>		
Interest receivable on cash deposits and short term investments	9,996	2,153
	<u>9,996</u>	<u>2,153</u>
<b>PAYABLE</b>		
Finance lease charges	-	298
Bank interest payable	-	168
Interest payable to fellow subsidiary undertakings	-	764
	<u>-</u>	<u>1,230</u>

7. TAXATION ON LOSS/PROFIT ON ORDINARY ACTIVITIES

The taxation charge represents UK corporation tax calculated at 30% (2000: 30%) of profits chargeable to tax.

	<u>2001</u> £'000	<u>2000</u> £'000
<b>Current year</b>		
Corporation tax at 30% (2000: 30%)	4,311	491
Deferred tax	122	(718)
	<u>4,433</u>	<u>(227)</u>
<b>Prior year</b>		
Corporation tax	149	134
Deferred tax	(2,395)	96
	<u>2,187</u>	<u>3</u>

8. DIVIDENDS PAID AND PROPOSED

	<u>2001</u> £'000	<u>2000</u> £'000
Final dividend proposed	8,000	-
	<u>8,000</u>	<u>-</u>

## 9. INTANGIBLE ASSETS

	Systems development costs £'000	Goodwill arising on acquisitions £'000	Total £'000
<b>Cost</b>			
Balance at 1 April 2000	4,155	820	4,975
Transferred to group undertaking	(4,155)	-	(4,155)
Balance at 31 March 2001	-	820	820
<b>Amortisation</b>			
Balance at 1 April 2000	389	44	433
Transferred to group undertaking	(389)	-	(389)
Charge in the year	-	42	42
Balance at 31 March 2001	-	86	86
<b>Net Book Amount</b>			
At 31 March 2001	-	734	734
At 31 March 2000	3,766	776	4,542

On 1 April 2000, the capitalised systems development costs were transferred to Heath Lambert Management Limited, a fellow group undertaking, at net book value.

## 10. TANGIBLE ASSETS

	Short leasehold land and buildings £'000	Furniture and equipment £'000	Motor Vehicles £'000	Total £'000
<b>Cost</b>				
At 1 April 2000	348	23,815	684	24,847
Transferred to group undertaking	(348)	(23,815)	(684)	(24,847)
At 31 March 2001	-	-	-	-
<b>Depreciation</b>				
At 1 April 2000	(70)	(11,230)	(565)	(11,865)
Transferred to group undertaking	70	11,230	565	11,865
At 31 March 2001	-	-	-	-
<b>Net Book Amount</b>				
At 31 March 2001	-	-	-	-
At 31 March 2000	278	12,585	119	12,982

**10. FIXED ASSETS (Continued)**

On 1 April 2000 the tangible fixed assets were transferred to Heath Lambert Management Limited, a fellow group undertaking, at net book value.

The net book value of fixed assets held under finance leases on 1 April 2000 was £3,744,000.

**11. INVESTMENTS**

	<u>Other Investments</u> £'000
<b>Cost</b>	
At 1 April 2000	319
Transfer to fellow group undertaking	(319)
	<hr/>
At 31 March 2001	-
	<hr/>
<b>Provision for diminution in value</b>	
At 1 April 2000	59
Transfer to fellow group undertaking	(59)
	<hr/>
	-
	<hr/>
<b>Net Book Amount</b>	
At 31 March 2001	-
	<hr/>
At 31 March 2000	260
	<hr/>

In the opinion of the directors, the value of the Company's investments is at least equal to the total amount shown above.

Other investments are unlisted securities and other marketable investments.

On 1 April 2000, other investments were transferred at book value to Heath Lambert Management Limited, a fellow group undertaking.

## 12. DEBTORS

	<u>2001</u>	<u>2000</u>
	£'000	£'000
Amounts falling due within one year:		
Insurance broking debtors	2,032,489	844,743
Amounts owed by group undertakings	47,044	49,342
Other debtors	-	1,440
Taxation (see note 20)	152	1,705
Prepayments and accrued income	-	2,461
	<u>2,079,685</u>	<u>899,691</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	10,000	6,898
Tax recoverable (note 20)	-	170
	<u>10,000</u>	<u>7,068</u>
Total debtors	<u>2,089,848</u>	<u>906,759</u>

Insurance broking debtors include £34,255,000 (2000: £6,646,000) owed by group undertakings.

On 1 April 2000 Insurance broking debtors of £583,082,709 were transferred from Heath Insurance Broking Limited as described on page 1.

## 13. DEPOSITS, CASH AND SHORT TERM INVESTMENTS

	<u>2001</u>	<u>2000</u>
	£'000	£'000
Cash and deposits	-	13,101
Insurance broking accounts	129,762	23,203
Short-term investments	7,245	12,205
	<u>137,007</u>	<u>48,509</u>

On 1 April 2000 Insurance broking accounts of £122,403,106 were transferred from Heath insurance Broking Limited as described on page 1.

On 31 March 2000, as required by Lloyd's Brokers Bye Law (number 5 of 1988), the Company had entered into a Trust Deed under which all insurance broking account assets were subject to a floating charge held on trust by the Society of Lloyd's for the benefit of the insurance broking creditors, which at 31 March 2000 amounted to £887,128,000. On 3 July 2000, following the Company ceasing to be regulated by Lloyd's, all charges as set out in the deed were discharged and the Company released.



## 14. CREDITORS

Amounts falling due within one year:	2001 £'000	2000 £'000
Bank overdraft	-	1,201
Insurance broking creditors	2,169,185	887,128
Amounts owing to group undertaking	8,000	1,879
Other creditors	2,659	1,655
Corporation tax	1,682	-
Other taxation and social security	-	2,415
Accruals and deferred income	1,955	749
Obligations under finance leases (note 23)	-	1,080
	<u>2,183,481</u>	<u>896,107</u>

Insurance broking creditors include £10,071,000 (2000: £4,056,000) owing to group undertakings.

On 1 April 2000 Insurance broking creditors of £692,440,831 were transferred from Heath Insurance Broking Limited as described on page 1.

## 15. CREDITORS

Amounts falling due after more than one year:	2001 £'000	2000 £'000
Amounts owing to group undertaking	10,463	56,928
Obligations under finance leases (note 23)	-	2,169
	<u>10,463</u>	<u>59,097</u>

## 16. PROVISIONS FOR LIABILITIES AND CHARGES

	Provision for Pension Liabilities £'000	Provision for Property Costs £'000	Provision for Litigation £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2000	1,122	391	57	722	2,292
Provided in Year	-	-	2,055	-	2,055
Transferred in Year	-	(391)	-	-	(391)
Utilised in Year	(160)	-	(663)	(722)	(1,545)
Balance at 31 March 2001	<u>962</u>	<u>-</u>	<u>1,449</u>	<u>-</u>	<u>2,411</u>

On 1 April 2000 the provision for property costs was transferred to Heath Lambert Management Limited, a fellow group undertaking, at net book value.

**16. PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

	2001 £'000	2000 £'000
Other provisions consist of the following:		
Provision for Onerous Contract Costs	-	76
Provision for Lloyd's Reconstruction and Renewal	-	532
Provision for Deferred Consideration	-	114
	<hr/> -	<hr/> 722

Certain of the Company's subsidiaries face a number of complex and lengthy litigation matters, the resolution of which is uncertain, which have arisen in the ordinary course of business. Such actions, which have become a common feature for companies trading in the international insurance markets, seek to recover amounts that, if awarded, would be significant. Having taken appropriate legal advice and having regard to the Group's insurance arrangements, the directors have provided amounts which they consider to be a realistic appraisal of the ultimate likely cost of these various claims against the Company. The provision is subject to regular review by the Group's legal department, external legal advisers and the directors. The claims are closely monitored and supervised by the Group's legal department.

**17. CALLED UP SHARE CAPITAL**

	£'000	Number
Authorised: ordinary shares of £1 each	25,000	25,000,000
Called-up and fully paid ordinary shares of £1 at start of year	15,000	15,000,000
Issued during the year	10,000	10,000,000
Called-up and fully paid ordinary shares of £1 at 31 March 2001	<hr/> 25,000	<hr/> 25,000,000

During the year, the Company issued 10,000,000 ordinary £1 shares in order to fund the purchase of certain of the trading assets and liabilities of Heath Insurance Broking Limited, a fellow group undertaking.

## 18. PROFIT AND LOSS RESERVES

	<u>2001</u> £'000	<u>2000</u> £'000
At 1 April 2000	556	11,602
Goodwill on prior year acquisitions	-	(23)
Retained profit/(loss) for the year	5,515	(11,023)
At 31 March 2001	<u>6,071</u>	<u>556</u>

The cumulative amount of goodwill eliminated against reserves at 31 March 2001 was £4,825,000 (2000: £4,825,000).

## 19. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	<u>2001</u> £'000	<u>2000</u> £'000
Profit/(Loss) for the year	13,515	(11,023)
Dividends	(8,000)	-
Goodwill written off direct to reserves in the year	-	(23)
New share capital issued	10,000	-
Net increase/(reduction) to shareholders' funds	<u>15,515</u>	<u>(11,046)</u>
Opening shareholders' funds	15,556	26,602
Closing shareholders' funds	<u>31,071</u>	<u>15,556</u>

## 20. DEFERRED TAXATION

	<u>2001</u> £'000	<u>2000</u> £'000
Deferred tax assets have been recorded as follows:		
Accelerated capital allowances	-	(1,275)
Short term and other timing differences	152	1,445
	<u>152</u>	<u>170</u>
Movements in deferred taxation:		
At 1 April 2000	170	(452)
Transfer to group undertaking	(2,291)	-
Credit to profit and loss account	2,273	622
At 31 March 2001	<u>152</u>	<u>170</u>

On 1 April 2000 the deferred taxation asset was transferred along with the underlying items to which it related to Heath Lambert Management Limited, a fellow group undertaking.

**21. DIRECTORS AND EMPLOYEES**

The aggregate amount of directors' emoluments (all of which are borne by fellow Group undertakings), excluding pension contributions was £2,308,908 (2000: £3,434,726). The emoluments of the highest paid director were £239,928 (2000: £310,110) and his accrued pension entitlement at 31 March 2001 amounted to £29,615 per annum (2000: £42,701). Retirement benefits are accruing to 20 (2000: 19) directors under the Group defined benefit scheme.

The average number of employees of the Company was 1,889 (2000: 1,822), all of which were employed in the United Kingdom.

The average number of employees in the Company during the year by function was as follows:

	<u>2001</u>	<u>2000</u>
Broking	999	964
Administration	890	858
	<u>1,889</u>	<u>1,822</u>

**22. TRANSACTIONS INVOLVING DIRECTORS AND OTHERS**

Risks may be placed with Lloyd's Syndicates in which directors and senior employees participate in the normal course of the Company's broking activities on the same basis as such risks are placed with other Lloyd's Syndicates.

**23. COMMITMENTS AND CONTINGENT LIABILITIES**

There were no capital commitments in respect of future capital expenditure on fixed assets at 31 March 2001 (2000: £ nil).

## (Formerly Lambert Fenchurch Limited)

## 23. COMMITMENTS AND LIABILITIES (Continued)

The Company had annual commitments under non-cancellable operating leases as set out below:

	2001		2000	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases which expire:				
- within one year	-	-	267	1,084
- in the second to fifth years inclusive	-	-	1,508	818
- over five years	-	-	3,111	-
	-	-	4,886	1,902

The majority of leases of Land and Buildings are subject to rent reviews.

Obligations under finance leases:	2001 £'000	2000 £'000
- due within one year	-	1,080
- due within two to five years	-	2,169
	-	3,249

At 31 March 2001 the Company had forward foreign exchange contract commitments to sell US\$72,000,000 (2000: US\$30,000,000). These contracts are at an average exchange rate of US\$1.4259 (2000: US\$1.63), all maturing prior to 31 May 2002. The Company had also entered into a weekly contract to sell US\$600,000 at a fixed rate of US\$1.59. If the spot rate rose above US\$1.65 on any transaction date, then no sale would take place in that particular week. The completed sales would be delivered on each anniversary date of the three-year contract which expires in October 2002. As at 31 March 2001, US\$15,600,000 had been sold at US\$1.59, but had not been delivered.

The Company and certain fellow Group companies are guarantors of loan facilities provided by National Westminster Bank and other lenders to the Company, HLF Insurance Holdings Limited (the ultimate parent undertaking), and certain fellow Group companies. At 31 March 2001, there was £164.0m drawn down under these facilities (2000: £153.6m). The potential additional contingent liability in respect of the maximum drawdown under these facilities is £31.0m (2000: £46.4m). The assets and liabilities of the Company and certain of its subsidiaries are secured under a deed dated 22 November 1999, in respect of the above facilities. Under this deed, neither a fixed nor a floating charge has been taken over the Company's insurance broking bank accounts. Other contingent liabilities are discussed in note 15.

**23. COMMITMENTS AND LIABILITIES (Continued)**

At 31 March 2001, the Company had access to a revolving credit and overdraft facility of up to £25m, and a capital expenditure facility of up to £35m, on which a margin of 2.25% in excess of UK LIBOR is charged. On 28 September 2001, the ultimate parent company amended the Group's principal UK banking facilities provided by National Westminster Bank and others. With the exception of the mezzanine loan that is due to be repaid in 2008, the loans are due for repayment in instalments up to 2006. The facilities continue to be secured by fixed and floating charges over the assets of the ultimate parent company and certain fellow Group companies. This has increased the available facilities by £17m.

**24. PENSION COMMITMENTS**

All previous employees of the Company are now employed by Heath Lambert Management Limited. This Company operates a number of pension schemes, the details of which can be found in the accounts of Heath Lambert Group Limited, the immediate parent company.

**25. ULTIMATE PARENT COMPANY**

At 31 March 2001, the Company's ultimate parent undertaking was HLF Insurance Holdings Limited, a company registered in England. The Company's immediate parent undertaking was Heath Lambert Group Limited, a company registered in England.

The smallest and largest undertaking for which group accounts are prepared and of which the Company is a member are those headed by Heath Lambert Group Limited and HLF Insurance Holdings Limited respectively. Copies of these group accounts may be obtained from the Company Secretary at Friary Court, Crutched Friars, London EC3N 2NP.

As a wholly owned subsidiary undertaking of HLF Insurance Holdings Limited, the Company has taken advantage of the exemption in FRS 8 "Related party disclosures" not to disclose transactions with other members of the group headed by HLF Insurance Holdings Limited.