BMS

BMS Associates Ltd

Report and Accounts

31 December 2004

Registered No: 1494399

Directors

G J McKean	Chairman	
R D Cooper		
H E Crawley		
S J Nunn		
J Ormerod	(Non-executive)	(appointed 1 September 2004)
J W J Spencer		
R D L Urquhart		
J R Windeler	(Non-executive)	
D Sullivan		(resigned 31 March 2005)
W M Gabitass	(Non-executive)	(resigned 30 June 2004)

Secretary
J J F Hills

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Principal Bankers
Citibank N.A.
336 Strand
London WC2R 1HB

Lloyds TSB Bank plc
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Chairman's Statement

As our theme for this year we have chosen to highlight the achievements of the many to whom we owe a great debt for human progress. These giants of intellect, invention and discovery inspire us all to be the best that we can be in our chosen field of endeavour. It is therefore good to be able to report that the BMS Group made some good progress in 2004 with many of our businesses showing very strong growth and nearly all exceeding their budgets. Brokerage and fee revenue increased 17% to just over £49m, while total revenues including investment income exceeded £51m.

The operating environment in the (re)insurance industry remains strong and while there are signs that the recent unaccustomed and unusually long period of profitability for the risk takers is starting to be eroded by increased competition, there is little appetite for a rapid return to the suicidal practices which so often have damaged the ability of the industry to serve the needs of customers and shareholders.

However, our industry is never content unless it indulges itself in self-inflicted injury and 2004 will be seen as a seminal year for all engaged in this business, but for all the wrong reasons. As a result of the investigations of one Attorney General in one State of the USA some of the world's biggest (re)insurance brokers were revealed to have lost touch with any concept of a value system. Economists refer to insurance as a "distress purchase" which means that our customers do not derive any great satisfaction from what we sell to them and since we are also associated with products that are seen as complicated and unlikely to perform to the customer's expectations, we are not a business which needed to bolster the low esteem in which we are generally held. Perhaps the most significant outcome so far is that not one of the managements of these organisations rushed to defend their practices but did assure the world that they had changed for the better. Such is the economic power of these brokers, it remains to be seen whether the temptation to abuse it can be resisted, despite the best efforts of regulators, politicians, accountants etc.

This situation has presented us with many opportunities since we have had no difficulty in demonstrating that the value system in the BMS Group has been and remains very much intact; we have always believed that any economic power that we might possess should be used to benefit our clients as well as ourselves.

Our international business continues to grow strongly and form alliances in emerging markets and after trading in the USA for nearly 25 years we have now acquired our own onshore company, BMS Vision Reinsurance Intermediaries Inc. This will provide an excellent platform for our expansion in our most important market and we welcome our new American colleagues to the BMS Group along with those who have joined us in the rest of the world.

As a part of the evolution of the BMS Group the three founders commenced the process of passing over the ownership and control to the next generation. Our long nurtured plan, to support the cherished independence of the BMS Group, envisaged this change and I am delighted that the future of the Group is now in strong and effective hands.

During 2004 we were sad to say goodbye to Michael Gabitass, a non-executive director who had made a very valuable contribution to the BMS Associates Ltd board for many years and the retirement intention of our other non-executive, John Windeler, was also announced. We shall greatly miss their wise advice and wish them well in the future. Following these retirements we have been very fortunate to secure the services of John Ormerod and discussions with others are at an advanced stage. As we learn to live with statutory regulation the wisdom of our non-executives will make an even greater contribution to the many issues with which we must grapple.

It is always good to report that the continuing commitment of the people in the BMS Group, to giving our valued customers what they want, has been crowned with achievement. Often great effort is not rewarded with success but the results of the Group for 2004 have shown that hard work can receive its just desserts and so to all those that made it possible, many thanks.

Graham McKean
25 May 2005

Chief Executive's Statement

2004 was an eventful year for the BMS Group, one in which substantial investments were made in business development, in the Share Ownership Programme and in preparing ourselves for a new regulatory regime. We have continued to fund these initiatives out of internally-generated resources, the impact of which is reflected in the reduction both in profit before tax and in shareholders' funds compared to 2003.

Our principal measures of underlying performance were encouraging, and demonstrated the benefits of our spread of business. The Group's trading margin (profit before performance bonuses and tax) rose by 12%, reflecting the underlying profitability of our more mature businesses. Brokerage per employee rose by 10% to £158,000, and we managed to contain the cost of centrally-provided services as a proportion of overall revenue, notwithstanding additional compliance costs.

On the capital side, the slight drop in shareholders' funds should be viewed in the context of our continuing programme of investment, through the BMS Associates Ltd Employee Trust, in our own shares. In next year's accounts we will fully incorporate the impact of any pension fund deficits in accordance with FRS17.

In September 2004 we realised our long-held ambition of establishing a presence in the USA. This was achieved through the purchase of Vision Reinsurance Intermediaries, a US-based firm in which the Group had held a 40% stake since its formation in 2000. We believe this positions us very favourably to expand our portfolio of North American reinsurance and programme business.

The development of our reinsurance and risk solutions broking capabilities outside North America and the UK continues to be a key focus of investment, and progress has been encouraging. Revenues increased by some 35% in 2004 and further strong growth is forecast for 2005. In 2004 we opened offices in Kuala Lumpur and Melbourne, and also paved the way for a venture in India, where we hope to be granted a reinsurance broking licence during 2005.

Our London-based specialist business units continue to thrive, and we have also had considerable success in promoting our fee-based legacy management services, proving the esteem in which our claims professionals are held in the marketplace.

2004 marked a significant milestone in the evolution of the BMS Employee Share Ownership Programme, as we reached agreement with the Group's founders, Bob Ballantyne, Graham McKean and David Sullivan, for the phased acquisition by the BMS Associates Ltd Employee Trust of their remaining 'A' and 'B' shares between 2004 and 2007, and for the transfer of voting control of the company to the trustees of the BMS Associates Ltd Employee Trust. This represented the final stage in the founders' plan to ensure that the Group was capable of sustained independence, a feature which we believe provides an attractive, partnership-style environment for staff, and underscores the impartiality of the advice we offer to our clients.

Internally, considerable time and resources were devoted to a comprehensive review and overhaul of our policies, procedures and controls in preparation for regulation by the Financial Services Authority from 14th January 2005. Authorisation was duly granted towards the end of the year. We are confident that our standards of service have never been higher, and that our clients and other trading partners can derive confidence from the fact that our operations are supervised under what is arguably the world's most exacting financial services regulatory regime.

Notwithstanding the successes of the past year, our business faces significant challenges, many of which are common to the sector. In particular the continuing weakness of the US dollar will make the attainment of real growth and the maintenance of satisfactory operating margins much more demanding. In line with other players in the international insurance markets, a high proportion of the Group's turnover is in US dollars, and the benefits of our forward selling programme in recent years cannot be sustained indefinitely.

Chief Executive's Statement

Tremendous demands have been made on staff over the past year, as we made every effort to meet the demands of the new regulatory regime without compromising our overriding priority of attending to client needs. As we move into 2005, the year in which BMS celebrates its 25th anniversary, I believe we are well positioned to meet the challenges ahead, and my thanks, as always, go to my colleagues around the world for their unstinting efforts.

John Spencer

25 May 2005

Directors' Report

The directors present their Annual Report and audited accounts for the year ended 31 December 2004 which were approved at a meeting of the Board on 25 May 2005.

Business review and future developments

The principal activity of the Group is to operate as specialist insurance and reinsurance brokers.

A review of the Group's activities and prospects is set out in the Chairman's and Chief Executive's Statements.

Results and dividends

The profit attributable to shareholders amounted to £1,527,000 (2003 - £2,131,000).

A first interim dividend of £155,202 was paid on 1 September 2004 (2003 - £154,800), a second interim dividend of £155,202 was paid on 1 December 2004 (2003 - £154,800), a third interim dividend of £158,860 was paid on 1 March 2005 (2004 - £155,202), and a fourth interim dividend of £158,860 will be paid on 1 June 2005 (2004 - £155,202). No final dividend is proposed. These include dividend payments of £134,560 (2003 - £107,057) made to the BMS Associates Ltd Employee Trust which have been disclosed as contributions to the Trust within administration expenses and therefore £1,034,000 (2003 - £1,618,000) is transferred to reserves.

Significant changes in fixed assets

Details of changes in fixed assets are disclosed in notes 8 to 13 to the accounts.

Directors and their interests

The directors of the company are listed on page 1 and, save as indicated, each held office throughout the year. Their interests in the share capital of the company were as follows:

	31 December 2004		*1 January 2004**	
	'A' shares	*'B' shares*	*'A' shares*	*'B' shares*
R D Cooper	102	5,706	10	5,257
H E Crawley	102	11,033	30	10,108
G J McKean	70	7,374	197	13,070
S J Nunn	102	9,626	40	10,686
J Ormerod	–	–	–	–
J W J Spencer	102	3,967	40	3,463
D Sullivan	70	11,887	196	18,902
R D L Urquhart	102	947	10	947
J R Windeler	–	–	–	–

*or at date of appointment, if later.

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

None of the directors had any interests in any transaction or arrangement with the Group during the year except as explained in note 24 to the accounts. The "A" shares held by R D Cooper, H E Crawley, S J Nunn, J W J Spencer and R D L Urquhart are held as nominees for the BMS Associates Ltd Employee Trust.

Directors' Report

Donations

The Group made donations of £22,906 (2003 - £34,486) for charitable purposes during the year. No political contributions were made by the Group during the year (2003 - £nil).

Substantial interests

At 31 December 2004 AHJ Investments Ltd held 260 'A' shares (26%) and 49,644 'B' non-voting shares (20%) and the BMS Associates Ltd Employee Trust held 510 "A" shares (51%) and 53,154 'B' shares (21%).

Employees

The Group's policy is to provide equal opportunities of employment, irrespective of gender, religion, race or marital status and to include, where appropriate having regard to capability and suitability, disabled persons. Accordingly, the Group will give due consideration to applications for employment by disabled persons and to the continued employment and training of persons who become disabled during their period of employment by the Group. The Group seeks to achieve a common awareness among the staff of financial and economic factors affecting the business by consultation and by a comprehensive system of employee communication.

Auditors

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

Approved by the Board of Directors and signed on behalf of the Board

J. J. R. Hills

Secretary

25 May 2005

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 Group and the profit or loss of the Group 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 Group 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 Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of BMS Associates Ltd

We have audited the Group's accounts for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, Balance Sheets, Consolidated Statement of Cash Flows, and the related notes 1 to 32. 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 Group is not disclosed.

We read the Directors' Report, the Chairman's Statement and the Chief Executive's Statement and consider the implications for our report if we become aware of any apparent misstatements within them.

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 Group'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 and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
25 May 2005

Consolidated Profit and Loss Account

for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Turnover			
Group			
Continuing operations	2	49,042	41,883
Administrative expenses	3	(48,347)	(40,066)
Other operating income	4	2,374	2,018
Operating profit		3,069	3,835
Profit on ordinary activities			
Group		3,069	3,835
Share of joint venture		461	210
Share of associate		130	69
Profit on ordinary activities before taxation		3,660	4,114
Tax on profit on ordinary activities	6	(1,835)	(1,711)
Profit on ordinary activities after taxation		1,825	2,403
Minority interests		(298)	(272)
Profit attributable to the shareholders of BMS Associates Ltd		1,527	2,131
Dividends	7	(493)	(513)
Retained profit for the year	21	1,034	1,618

A consolidated statement of total recognised gains and losses has not been prepared since there are no other recognised gains or losses for the current financial year and preceding financial year other than as stated in the profit and loss account.

Balance Sheets

at 31 December 2004

	Notes	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Fixed Assets					
Intangible assets	8	3,059	1,900	–	–
Tangible assets	9	2,833	2,587	124	137
Investment in subsidiary undertakings	10	–	–	5,508	5,100
Interest in joint venture:	11				
Share of gross assets		4,170	2,316	–	–
Share of gross liabilities		(3,673)	(2,063)	–	–
		497	253	–	–
Investment in associated undertakings	12	54	378	–	–
Other investments	13	257	275	–	–
		6,700	5,393	5,632	5,237
Current Assets					
Debtors	14	269,302	198,464	5,734	1,082
Investments	15	102	109	–	–
Cash at bank and in hand including short term deposits	31	59,532	64,198	986	1,950
		328,936	262,771	6,720	3,032
Creditors: amounts falling due within one year	16	(318,421)	(249,936)	(4,468)	(3,825)
Net Current Assets/(Liabilities)		10,515	12,835	2,252	(793)
Total Assets less Current Liabilities		17,215	18,228	7,884	4,444
Creditors: amounts falling due after more than one year	17	(157)	(351)	–	–
Provisions for liabilities and charges	18	(2,460)	(2,571)	–	–
Equity minorities share of net assets of subsidiaries		(426)	(533)	–	–
Total Net Assets		14,172	14,773	7,884	4,444
Capital and Reserves					
Called up share capital	20	12	12	12	12
Share premium account	21	3,166	2,581	3,166	2,581
Capital reserve	21	990	990	–	–
Profit and loss account	21	14,720	13,686	9,422	4,347
		18,888	17,269	12,600	6,940
Investment in own shares	23	(4,716)	(2,496)	(4,716)	(2,496)
Equity shareholders' funds	22	14,172	14,773	7,884	4,444

These accounts were approved by the Board of Directors on 25 May 2005.

Signed on behalf of the Board of Directors

Consolidated Statement of Cash Flows

at 31 December 2004

	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Net cash (outflow)/inflow from operating activities	28		(3,750)		7,349
Returns on investments and servicing of finance					
Interest received		1,593		1,609	
Dividends paid to minority shareholders in subsidiary undertakings		(91)		(114)	
Income from unlisted investments		241		440	
Net cash inflow from returns on investments and servicing of finance			1,743		1,935
Taxation					
Tax paid			(2,049)		(1,073)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1,388)		(548)	
Disposal of tangible fixed assets		104		39	
Purchase of intangible fixed assets		(781)		–	
Purchase of other fixed asset investments		(22)		(205)	
Disposal of other fixed asset investments		–		323	
Net cash (outflow) from capital expenditure and financial investment			(2,087)		(391)
Acquisitions and disposals					
Purchase of subsidiaries		(1,944)		(107)	
Cash acquired with subsidiaries		1,468		–	
Net cash (outflow) from acquisitions and disposals			(476)		(107)
Equity dividends paid			(485)		(513)
Cash (outflow)/inflow before financing			(7,104)		7,200
Financing					
Purchase of own shares		(2,220)		(195)	
Issue of new shares		585		–	
			(1,635)		(195)
(Decrease)/increase in cash	29		(8,739)		7,005

Notes to the Accounts

at 31 December 2004

1. Accounting policies

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with United Kingdom applicable accounting standards.

Basis of consolidation

The Group accounts comprise the accounts of BMS Associates Ltd, its subsidiary undertakings as listed in note 10 to the accounts, its joint venture undertaking as detailed in note 11 to the accounts, its associated undertakings as detailed in note 12 to the accounts and the assets and liabilities of the BMS Associates Ltd Employee Trust.

In accordance with the exemption allowed by section 230 of the Companies Act 1985 the company has not presented its own profit and loss account. Of the consolidated profit for the financial year, £5,568,000 profit (2003 - £2,163,000 profit) has been dealt with in the accounts of the parent company.

Turnover

Turnover represents brokerage and fees earned for placing and servicing risks on behalf of clients. The Group takes credit for this income at the later of, the policy inception date or when the policy placement has been completed and confirmed. Where the premium is paid by the client in instalments, all of the income receivable is recognised when the client is debited for the first instalment.

A proportion of income is deferred over the period of the underlying contract to recognise the ongoing contractual obligations of maintaining and servicing the contract over that period.

Foreign currencies

Brokerage and investment income expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date on which the transaction occurs or, in the case of transactions covered by related forward exchange contracts, the rate of exchange specified in the contracts.

Monetary assets and liabilities in foreign currencies are translated into sterling at exchange rates ruling at the balance sheet date.

Exchange gains or losses are included within the profit and loss account.

Notes to the Accounts

at 31 December 2004

1. Accounting policies (continued)

Depreciation of tangible assets

Where the Group expects to use certain assets in its operations for more than one year, the cost of these assets is spread over a number of years.

The method the Group uses to do this is to estimate the useful life of the asset and the realisable value at the end of that time. The profit and loss account is then charged with an equal annual amount so that by the end of its estimated useful life the cost of the asset has been written down to its estimated realisable value. Depreciation is provided on leasehold but not freehold property, as the directors consider freehold property to have an indefinite useful life. Freehold property is, however subject to impairment reviews.

For the major classes of assets, annual depreciation rates are as follows:

Leasehold property	2%
Fixtures, fittings and equipment	10% to 20%
Motor vehicles	20%
Computer hardware	25%

Leasing

Operating lease costs are charged to the profit and loss account in equal annual instalments over the lives of the leases.

Pensions

All employees are eligible to become members of a Group pension scheme after three months' service. For defined benefit schemes, the pension cost charged to the profit and loss account is based on the actuarially determined contribution rate after each triennial valuation. For defined contribution schemes, the pension cost charge represents the contributions payable by the Group under the rules of the scheme.

Deferred taxation

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.

Goodwill

When the Group acquires other business undertakings, the purchase price will normally exceed the fair value of the net assets acquired. This excess is referred to as goodwill and represents the income-generating potential of an experienced management team and an established customer base.

The Group's policy is to capitalise goodwill and amortise it over its estimated useful life. The normal amortisation periods range from 10 to 20 years. Goodwill is also subject to an annual impairment review.

Investment in subsidiary undertakings

The investment in subsidiary undertakings is stated in the parent company balance sheet at the cost of shares plus long term loans, less any provision for impairment.

Own shares

Shares purchased by the BMS Associates Ltd Employee Trust are valued at acquisition cost. Disposals are valued at average cost.

Notes to the Accounts

at 31 December 2004

1. Accounting policies (continued)

Investments

Except as stated below, investments are stated at the lower of cost or market value.

In the consolidated accounts, shares in associated undertakings and joint ventures are accounted for using the equity method.

Interest on deposits and interest bearing investments is credited as it is earned.

Financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange and interest rate risks. These include forward foreign exchange contracts and forward interest rate agreements.

Forward interest rate agreements are held off-balance sheet until the strike date when receipts and payments on settlement are recognised as adjustments to investment income on an accruals basis over the period of the underlying contract.

Changes to the fair value of foreign exchange contracts held as hedges against transactional exposure are not recognised until the maturity of the contract.

Insurance broking debtors and creditors

Insurance brokers normally 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 such legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities in recognition of the fact that the insurance broker is entitled to retain investment income on any cash flows arising from such transactions.

In the ordinary course of insurance broking business, settlement is required to be made with certain insurance intermediaries and bureaux on the basis of the net balance due to or from the intermediary or bureau rather than the amount due to or from the individual third parties it represents.

The Group has adopted Financial Reporting Standard 5 ('FRS 5') "Reporting the Substance of Transactions" and offsets debtors and creditors from insurance transactions only when it is legally enforceable.

2. Turnover

	2004	*2003*
	£000	*£000*
Geographical analysis of turnover by destination		
North America	28,751	24,051
Rest of the World	12,222	9,711
United Kingdom	8,069	8,121
	49,042	41,883

The turnover relates to the Group's principal activity of insurance and reinsurance broking. The business activities of the Group are primarily based in the United Kingdom, and this is where the Group's operating profits are generated and its net assets are held.

The group share of the joint venture turnover is £1,195,000 (2003: £1,070,000).

The group share of the associate turnover is £1,209,000 (2003: £1,204,000).

Notes to the Accounts

at 31 December 2004

3. Administrative expenses

	2004	*2003*
	£000	*£000*
Staff costs including directors' emoluments:		
Salary and performance bonus	24,625	19,544
Social security costs	2,925	2,242
Other pension costs	3,155	3,015
Other staff costs	1,369	838
	32,074	25,639
Amortisation of goodwill	245	285
Depreciation	1,052	936
(Profit) on disposal of tangible fixed assets	(14)	(4)
Auditors' remuneration - audit fee	164	154
Auditors' remuneration - other services	162	60
Movement in provisions	600	464
Contributions to employee trust	135	407
Other administrative expenses	13,929	12,125
	48,347	40,066

4. Other operating income

	2004	*2003*
	£000	*£000*
Bank interest receivable	1,625	1,547
Other	508	1
Capital gain on the disposal of investments	–	30
Income from unlisted investments	241	440
	2,374	2,018

5. Directors

	2004	*2003*
	£000	*£000*
Remuneration of directors of the company included in staff costs was as follows:		
Emoluments payable	2,804	2,575

The company contributions payable to the defined contribution pension scheme amounted to £200,880 (2003 - £181,174). Four directors (2003 - four) are members of the defined benefit scheme and five (2003 - five) directors are members of the defined contribution schemes.

The emoluments payable to the highest paid director were £795,447 (2003 - £692,267). Contributions to the defined contribution scheme for the highest paid director were £22,993 (2003 - £25,005). The accrued pension of the highest paid director under the defined benefit scheme amounts to £42,603 (2003 - £40,322).

	2004	*2003*
	No.	*No.*
The average number of employees during the year was	311	288

Notes to the Accounts

at 31 December 2004

6. Tax on profit on ordinary activities

	2004 £000	2003 £000
The taxation charge comprises:		
Current Tax		
UK Corporation tax at 30% (2003: 30%)	1,601	1,650
Prior years' under provision	14	5
Overseas tax	24	–
Total current tax	1,639	1,655
Deferred tax		
Origination and reversal of timing differences	(123)	(157)
	1,516	1,498
Share of joint venture taxation	217	192
Share of associates taxation	102	21
Tax on profit on ordinary activities	1,835	1,711

Factors affecting tax charge for the year

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

	2004 £000	2003 £000
Profit on ordinary activities before tax	3,660	4,114
Less: Share of associate and joint venture	591	279
	3,069	3,835
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	921	1,150
Effects of:		
Expenses not deductible for tax purposes	557	343
Other timing differences	102	188
Capital allowances for period in excess of depreciation	21	(30)
Utilisation of tax losses	–	(1)
Current tax charge for the period	1,601	1,650

The Group is in dispute with the Inland Revenue over the tax deductibility of payments made to the BMS Associates Ltd Employee Trust between 1998 and 2002. The resolution of this dispute is likely to depend on Court cases not related to the Group but which may establish the principle to be followed. The timing of this resolution is thus dependant on factors largely outside the Group's control. The amounts involved are payments of £2,224,643 and related tax of £667,393. Our taxation advice is that we should achieve a tax allowance on these payments and the directors have accordingly made no provision for any disallowance in these accounts.

Notes to the Accounts

at 31 December 2004

7. Dividends

	2004 £000	2003 £000
'B' ordinary shares of 5p each:		
Paid on 242,504 (2003 – 242,504) 'B' shares	310	310
Proposed on 248,219 (2003 – 242,504) 'B' shares	318	310
	628	620
Less dividends paid to Employee Trust	(135)	(107)
	493	513

8. Intangible fixed assets

Group

	£000
Goodwill arising on the acquisition of subsidiary undertakings	
Cost	
At 1 January 2004	2,593
Additions	1,404
At 31 December 2004	3,997
Amortisation	
At 1 January 2004	693
Charged in year	245
At 31 December 2004	938
Carrying value at 31 December 2004	3,059
Carrying value at 31 December 2003	1,900

All acquisitions have been accounted for using the acquisition method. Goodwill has been calculated as the value of consideration and expenses of acquisition less the fair value of net assets acquired.

Additions for the current year related to the acquisition of further subsidiaries within the group as set out in note 10.

Notes to the Accounts

at 31 December 2004

9. Tangible fixed assets

Group

	Freehold and leasehold property £000	*Fixtures, fittings and equipment £000*	*Motor vehicles £000*	*Computer hardware £000*	*Total £000*
Cost					
At 1 January 2004	2,069	2,648	498	4,441	9,656
Additions	20	374	238	756	1,388
Disposals	–	–	(214)	–	(214)
At 31 December 2004	2,089	3,022	522	5,197	10,830
Accumulated depreciation					
At 1 January 2004	960	2,156	295	3,658	7,069
Charged in year	237	125	88	602	1,052
Disposals	–	–	(124)	–	(124)
At 31 December 2004	1,197	2,281	259	4,260	7,997
Net book value at 31 December 2004	892	741	263	937	2,833
Net book value at 31 December 2003	1,109	492	203	783	2,587

Included in freehold and leasehold property above is leasehold property with a cost of £1,599,000 (2003 - £1,579,000) and accumulated depreciation of £1,197,000 (2003 - £960,000).

Company

	Leasehold property £000	*Fixtures fittings and equipment £000*	*Motor vehicles £000*	*Total £000*
Cost				
At 1 January 2004	128	59	62	249
Disposals	–	–	–	–
At 31 December 2004	128	59	62	249
Accumulated depreciation				
At 1 January 2004	36	37	39	112
Charged in year	2	5	6	13
Disposals	–	–	–	–
At 31 December 2004	38	42	45	125
Net book value at 31 December 2004	90	17	17	124
Net book value at 31 December 2003	92	22	23	137

Notes to the Accounts
at 31 December 2004

10. Investment in subsidiary undertakings

	Shares	*Long terms loans*	*Total*
	£000	*£000*	*£000*
Company			
Cost			
At 1 January 2004	4,323	1,195	5,518
Additions	170	35	205
Transfer from subsidiary undertakings	352	–	352
At 31 December 2004	4,845	1,230	6,075
Provision for impairment			
At 1 January 2004	418	–	418
Impairment in year	149	–	149
At 31 December 2004	567	–	567
Carrying value at 31 December 2004	4,278	1,230	5,508
Carrying value at 31 December 2003	3,905	1,195	5,100

Notes to the Accounts

at 31 December 2004

10. *Investment in subsidiary undertakings (continued)*

Details of the principal subsidiary undertakings at 31 December 2004 all of which are consolidated are:

		Percentage held by	
		Company	*Subsidiaries*
Name	*Principal activity*	*%*	*%*
Ballantyne, McKean & Sullivan Ltd (formerly BMS Group Ltd)	Reinsurance broking	100	–
BankServe Insurance Services Ltd	Insurance services	70	
BMS Asia Intermediaries Ltd	Reinsurance broking	–	100
BMS Asia Intermediaries Pte Ltd	Reinsurance broking	–	75
BMS Bermuda Ltd	Reinsurance broking	–	100
BMS Clarke Ltd	Corporate investment	100	–
BMS Facultative Ltd	Reinsurance and insurance broking	100	–
BMS Group Ltd (formerly Ballantyne, McKean & Sullivan Ltd)	Management services	100	–
BMS Harris & Dixon Insurance Brokers Ltd	Reinsurance and insurance broking	–	100
BMS Harris & Dixon Ltd	Reinsurance and insurance broking	100	–
BMS Harris & Dixon Marine Ltd	Insurance broking	100	–
BMS Harris & Dixon Praha a.s.	Reinsurance and Insurance broking	–	100
BMS Harris & Dixon Reinsurance Brokers Ltd	Reinsurance and insurance broking	100	–
BMS Insurance & Reinsurance Brokers Hellas SA	Reinsurance and insurance broking	–	80
BMS International Intermediaries Ltd	Reinsurance and insurance broking	100	–
BMS International Intermediaries Pty Ltd	Reinsurance and Insurance broking	–	100
BMS Investments Ltd	Corporate investment	100	–
BMS Management Services Ltd	Management services	100	–
BMS Marine Reinsurance Services Ltd	Reinsurance broking	100	–
BMS Nordic Intermediaries AS	Reinsurance broking	–	100
BMS Re Ltd	Reinsurance broking	100	–
BMS Special Risk Services Ltd	Reinsurance and insurance broking	100	–
BMS Specialty Risks Underwriting Managers Ltd	Insurance services	–	100
BMS US Holdings Inc	Corporate investment	100	–
BMS Vision Reinsurance Intermediaries Inc	Reinsurance broking	–	100
BMS Vision Re Ltd	Reinsurance broking	100	–
H.D. Holdings Ltd	Corporate investment	100	–
Jansen & Hastings Intermediaries Ltd	Insurance services	100	–
Minova Enterprises Ltd	Corporate investment	100	–
SCI Palmier	Property investment	100	–
Underwriting Facilities Ltd	Insurance services	–	100

Notes to the Accounts

at 31 December 2004

10. Investment in subsidiary undertakings (continued)

All the above companies are registered and operate in England and Wales except as follows:

	Country
BMS Asia Intermediaries Ltd	Malaysia
BMS Asia Intermediaries Pte Ltd	Singapore
BMS Bermuda Ltd	Bermuda
BMS Harris & Dixon Praha a.s.	Czech Republic
BMS Insurance & Reinsurance Brokers Hellas SA	Greece
BMS International Intermediaries Pty Ltd	Australia
BMS Nordic Intermediaries AS	Norway
BMS Specialty Risks Underwriting Managers Ltd	Canada
BMS US Holdings Inc	USA
BMS Vision Reinsurance Intermediaries Inc	USA
SCI Palmier	France

During the year the company increased its shareholding in BMS Facultative Ltd from 70% to 100%.

In addition the Group increased its shareholding in BMS Vision Reinsurance Intermediaries Inc from 40% to 100% and its shareholding in BMS Insurance & Reinsurance Brokers Hellas SA from 51% to 80%.

The increase in the shareholding in BMS Vision Reinsurance Intermediaries Inc represented a significant acquisition for the Group.

An analysis of the fair value of the net assets at acquisition and the consideration paid is set out below.

	Book value	*Fair value adjustments*	*Fair value*
	£000	*£000*	*£000*
Intangible fixed assets	781	–	781
Tangible fixed assets	228	–	228
Debtors	2,137	817	2,954
Cash	1,453	–	1,453
Creditors: amounts falling due within one year	(3,607)	(598)	(4,205)
Net assets	992	219	1,211
Total consideration			1,374
Goodwill arising			163

Notes to the Accounts

at 31 December 2004

11. Interest in joint venture

	£000
At 1 January 2004	253
Movement during the year	244
At 31 December 2004	497

The Group's investment in the joint venture undertaking is valued at its share of its net assets.

Name	*Principal activity*	*Country in which registered and operating*	*Company* %	*Subsidiaries* %
John B. Collins Associates (UK) Ltd (formerly BMS Collins Ltd)	Reinsurance broking	England & Wales	–	50

12. Investment in associated undertakings

	£000
At 1 January 2004	378
Transfer to subsidiary undertakings	(352)
Share of associate profit	28
At 31 December 2004	54

During the year, the group acquired additional shareholdings in two of its former associates, BMS Vision Reinsurance Intermediaries Inc and BMS Insurance & Reinsurance Brokers Hellas SA, as set out in note 10.

The Group's investment in associated undertakings is valued at its share of their net assets.

Details of the associated undertakings at 31 December 2004 are:

Name	*Principal activity*	*Country in which registered and operating*	*Company* %	*Subsidiaries* %
Health & Accident Underwriters (Pty) Ltd	Insurance services	South Africa	50	–
International Reinsurance Brokers Ltd	Reinsurance broking	England & Wales	–	50

Notes to the Accounts

at 31 December 2004

13. Other investments

	Group unlisted investments £000	Company unlisted investments £000
At 1 January 2004	275	–
Exchange loss on revaluation of investments	(11)	–
Amount written off value of investments	(29)	–
Additions	22	–
At 31 December 2004	257	–

14. Debtors

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Insurance debtors	263,431	193,822	–	–
Amount due from subsidiary undertakings	–	–	5,146	490
Taxation	–	–	515	549
Other debtors	2,706	2,229	48	19
Deferred tax (note 19)	991	868	25	24
Prepayments and accrued income	2,174	1,545	–	–
	269,302	198,464	5,734	1,082

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

15. Current asset investments - Group

	2004 £000	2003 £000
Listed in United Kingdom	3	3
Listed overseas	29	31
Unlisted	70	75
	102	109

Notes to the Accounts

at 31 December 2004

16. **Creditors:** amounts falling due within one year

		Group		*Company*
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Insurance creditors	298,650	234,195	–	–
Deferred brokerage	2,281	2,129	–	–
Amount owed to subsidiary undertakings	–	–	748	90
Proposed dividend	318	310	318	310
Taxation	997	1,530	7	7
Other creditors including taxation and social security	3,961	3,300	2,772	2,650
Accruals and deferred income	12,214	8,472	623	768
	318,421	249,936	4,468	3,825

17. **Creditors:** amounts falling due after more than one year

		Group		*Company*
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Other	157	351	–	–

18. Provisions for liabilities and charges

	At 1 January 2004	*Utilisation*	*Increase/ (decrease) in provision*	*At 31 December 2004*
	£000	*£000*	*£000*	*£000*
Deferred consideration	640	(240)	–	400
E&O provision	572	–	(2)	570
Provision for property costs	1,123	(440)	602	1,285
Other	236	(31)	–	205
	2,571	(711)	600	2,460

Deferred consideration

Provision has been made for deferred consideration due in 2005 and 2006 in respect of acquisitions made in prior years.

E & O provision

Certain subsidiaries are currently involved or potentially involved in claims arising from their business activities. On the facts known to the directors there is no reason to suppose that any losses in excess of the deductibles under the Group's errors and omission insurances will not be covered. Provision is only made to the extent that losses are expected to arise.

Provision for property costs

The group has vacated a number of leased premises which remain unlet. A provision has been made based on Chartered Surveyors' advice to the directors of the costs, net of future rental income, likely to be incurred to the end of the lease periods where there are lease obligations. There is also provision for dilapidation liabilities.

Notes to the Accounts

at 31 December 2004

19. Deferred taxation

	Group		Company	
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Capital allowances	185	164	(18)	(13)
Other timing differences	806	704	43	37
Deferred tax asset	991	868	25	24

20. Called up share capital

	2004	*2003*
	£	*£*
Authorised		
1,000 (2003: 1,000) 'A' ordinary shares of 5p each - non equity	50	50
399,000 (2003: 399,000) 'B' ordinary shares of 5p each - equity	19,950	19,950
	20,000	20,000
Allotted and fully paid		
1,000 (2003: 1,000) 'A' ordinary shares of 5p each - non equity	50	50
248,219 (2003: 242,504) ' B' ordinary shares of 5p each - equity	12,411	12,125
	12,461	12,175

During the year new shares were used in order to facilitate the acquisition of the 30% minority interest in BMS Facultative Ltd.

The holders of the 'A' ordinary shares of 5p each are entitled to vote at the company's general meetings but are not entitled to any dividends and are only entitled to the paid up amount upon winding up.

The holders of the 'B' ordinary shares of 5p each are not entitled to vote at the company's general meetings but are entitled to dividends and any surplus upon winding up.

Notes to the Accounts

at 31 December 2004

21. Reserves

	Group		*Company*	
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Share premium account				
At 1 January	2,581	2,581	2,581	2,581
Premium on shares issued	585	–	585	–
At 31 December	3,166	2,581	3,166	2,581
Capital reserve				
At 1 January and 31 December	990	990	–	–
Opening retained reserves	13,686	12,068	4,347	2,697
Profit attributable to shareholders	1,527	2,131	5,568	2,163
Dividends	(493)	(513)	(493)	(513)
Closing retained reserve	14,720	13,686	9,422	4,347

The capital reserve is non-distributable. It relates to a retained reserves within a subsidiary company which have been converted to share capital.

22. Reconciliation of movements in equity shareholders' funds

	Group		*Company*	
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Opening equity shareholders' funds	17,269	15,651	6,940	5,290
Profit attributable to shareholders	1,527	2,131	5,568	2,163
Dividends	(493)	(513)	(493)	(513)
Share capital issued	585	–	585	–
Closing equity shareholders' funds before investment in own shares	18,888	17,269	12,600	6,940
Investment in own shares	(4,716)	(2,496)	(4,716)	(2,496)
	14,172	14,773	7,884	4,444

Notes to the Accounts

at 31 December 2004

23. Employee share ownership programme

The group operates a scheme under a trust arrangement, The BMS Associates Ltd Employee Trust.

The investment in 'own shares' is deducted from shareholders' funds in the balance sheets.

Group and Company

	2004	*2003*
	£000	*£000*
At 1 January	2,496	2,301
Acquisitions	2,220	195
At 31 December	4,716	2,496

Effective 31 March 2004, the Employee Trust entered into an agreement with R E F Ballantyne, G J McKean, D Sullivan and connected parties to purchase their entire shareholdings of A and B shares in the Company over a three year period. To enable it to honour its financial obligations, the Company has agreed to make total contributions not exceeding £7,016,220 to the Employee Trust under certain terms and conditions. As at 31 December 2004, £4,220,235 of these contributions were outstanding.

24. Transactions with directors

H E Crawley and G J McKean are members of syndicates at Lloyd's, although have not actively traded during the year. S J Nunn was but ceased to be a member of Lloyd's during 2004. The Group places business with and on behalf of syndicates at Lloyd's, on which these directors are members, on the same basis as the Group deals with other Lloyd's syndicates.

25. Commitments – Lease agreements

The Group as part of its normal trading activities has entered into certain lease agreements for the provision of office accommodation. These agreements impose a commitment on the Group to pay the lease rents for the period of the lease.

Set out below are the operating lease rentals payable during the next year.

	2004	*2003*
	£000	*£000*
Commitments expiring:		
Within one year	811	–
Between one and five years	1,423	1,913
After more than five years	25	–
	2,259	1,913

Notes to the Accounts

at 31 December 2004

26. Financial commitments

(i) At 31 December 2004 there were outstanding forward exchange contracts for the sale of foreign currencies for Sterling as follows:

US$71.5m at rates between 1.4214 and 1.8078
Can$5.0m at rates between 2.1874 and 2.4184
Euro5.5m at rates between 1.3717 and 1.4272

(ii) The company had outstanding forward interest rate agreements for deposits totalling $13,000,000 (2003 - $9,000,000).

(iii) The minority shareholders of BankServe Insurance Services Ltd hold options to sell their shareholdings in exchange for shares in the company. The options are exercisable in the period 2003 to 2005 and the number of shares to be issued will be dependent upon the average profits of BankServe Insurance Services Ltd relative to the average profits of the rest of the Group for the three, four or five financial years ending prior to the exercise of the options.

27. Pensions

The Group operates three defined contribution pension schemes, the assets being held separate from the Group in independently administered funds. The employer contributions are charged direct to the profit and loss account.

In addition, the group operates two defined benefit pensions schemes, both of which are closed to new employees.

The Pension and Assurance Scheme of BMS Associates Ltd

A defined benefit scheme, provides benefits based on final pensionable salaries. The schemes assets are held in a separate trustee administered fund. The pension cost relating to the scheme is assessed in accordance with the advice of an independent actuary using the projected unit funding method. The latest actuarial assessment of the scheme was at 31 December 2002 and the main actuarial assumptions were that the annual compound rate of return on investment would be 7% and that annual increases in earnings and pensions would be 4% and 3% respectively. The assessed value of the assets at the date of the latest actuarial valuation amounted to £8,138,000 and the actuarial value of the assets was sufficient to cover 50% of the value of the benefits that had accrued to members on the basis of pensionable earnings and service at the date of the valuation on an ongoing basis. The level of funding on a Minimum Funding Requirement basis was 85%.

Based on the recommendations of the actuary, the funding rate was set at 27.6% with effect from 1 January 2003.

Notes to the Accounts

at 31 December 2004

27. Pensions (continued)

The BMS Harris & Dixon Insurance Brokers Ltd Pension and Life Assurance Scheme

A defined benefit scheme, provides benefits based on final pensionable salaries. The schemes assets are held in a separate trustee administered fund. The pension cost relating to the scheme is assessed in accordance with the advice of an independent actuary using the projected unit funding method. The latest actuarial assessment of the scheme was at 31 August 2002 and the main actuarial assumptions were that the annual compound rate of return on investment would be 7% and that annual increases in earnings and pensions would be 5% and 3% respectively. The assessed value of the assets at the date of the latest actuarial valuation amounted to £14,790,000 and the actuarial value of the assets was sufficient to cover 97% of the value of the benefits that had accrued to members on the basis of pensionable earnings and service at the date of the valuation on an ongoing basis. The level of funding on a Minimum Funding Requirement basis was 132%.

Based on the recommendations of the actuary, the funding rate was set at 26.5% with effect from 1 September 2002.

Contributions

	2004	*2003*
	£000	*£000*
Contributions paid to defined benefit schemes	1,911	1,913
Contributions payable to defined contribution schemes:	1,244	1,102

FRS 17 Disclosures

On 30 November 2000, the Accounting Standards Board introduced FRS 17 "Retirement Benefits", replacing SSAP 24 "Accounting for Pension Costs". FRS 17 is fully effective for periods ending in 2005, though disclosures are required in the transitional period. The group is adopting the transitional arrangements of FRS 17. Therefore, the full actuarial valuations for the Group schemes as a whole have been reviewed and updated as at 31 December 2004 by qualified independent actuaries. Initial disclosures showing the total assets and liabilities of the pension plans are set out below. These have been calculated on the following assumptions, for both schemes:

		2004	*2003*	*2002*
Rate of increase in salaries		3.75%	3.75%	3.50%
Rate of increase for pensions in payment	- (BMS)	3.00%	3.00%	3.00%
	- (H&D)	2.75%	2.75%	2.50%
Discount rate		5.50%	6.00%	5.75%
Inflation assumption		2.75%	2.75%	2.50%

Notes to the Accounts

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27. Pensions (continued)

The assets and liabilities of the BMS Associates Group defined benefit pension plans at 31 December 2004 are shown below:

	BMS Associates		
	2004	*2003*	*2002*
	£000	*£000*	*£000*
Equities	6,772	5,415	3,902
Bonds and cash	7,376	5,382	4,128
Market value of assets	14,148	10,797	8,030
Present value of liabilities	(22,170)	(17,479)	(16,224)
Deficit in the plan	(8,022)	(6,682)	(8,194)
Related deferred tax assets	2,407	2,005	2,458
Net pension liability	(5,615)	(4,677)	(5,736)

	BMS Harris & Dixon		
	2004	*2003*	*2002*
	£000	*£000*	*£000*
Equities	10,975	9,978	8,247
Bonds and cash	7,523	6,732	6,001
Market value of assets	18,498	16,710	14,248
Present value of liabilities	(21,261)	(18,308)	(15,828)
Deficit in the plan	(2,763)	(1,598)	(1,580)
Related deferred tax assets	829	479	474
Net pension liability	(1,934)	(1,119)	(1,106)

The expected long-term rate of return over the following year is 5.00% (2003: 5.25%, 2002: 5.00%) for bonds and 7.75% (2003: 7.75%, 2002: 7.5%) for equities.

The above annual financial assumptions are prescribed by FRS 17 and do not reflect the assumptions used by the independent qualified actuary in the triennial valuation, which determine the Group's contribution rates for future years. FRS 17 requires the directors to disclose the assets and liabilities of the Group's defined benefit schemes at 31 December 2004 using these FRS 17 assumptions.

Notes to the Accounts

at 31 December 2004

27. Pensions (continued)

FRS 17 Disclosures

The following amounts would be reflected in the profit and loss account and statement of total recognised gains and losses on implementation of FRS17.

Amount that would be charged to operating profit

	2004 BMS Associates £000	2004 BMS Harris & Dixon £000	2004 Total £000	2003 BMS Associates £000	2003 BMS Harris & Dixon £000	2003 Total £000
Current service cost	576	437	1,013	1,082	401	1,483
Past service cost	–	–	–	–	–	–
Total operating charge	576	437	1,013	1,082	401	1,483

Amount that would be credited to other finance income

	2004 BMS Associates £000	2004 BMS Harris & Dixon £000	2004 Total £000	2003 BMS Associates £000	2003 BMS Harris & Dixon £000	2003 Total £000
Interest cost	(1,064)	(1,099)	(2,163)	(930)	(916)	(1,846)
Expected return on pension scheme assets	768	1,127	1,895	545	926	1,471
Net return	(296)	28	(268)	(385)	10	(375)

Analysis of amount that would be recognised in statement of total recognised gains and losses

	BMS Associates 2004 £000	BMS Associates 2003 £000	BMS Associates 2002 £000	BMS Harris & Dixon 2004 £000	BMS Harris & Dixon 2003 £000	BMS Harris & Dixon 2002 £000	Total 2004 £000	Total 2003 £000	Total 2002 £000
Difference between the expected and actual return on scheme assets:									
Amount (£000)	568	752	(2,740)	648	1,240	(2,802)	1,216	1,992	(5,542)
% of Scheme assets	4.01	6.96	34.12	3.50	7.42	19.67	3.72	7.24	24.88
Experience gains and losses on scheme liabilities:									
Amount (£000)	(103)	(1,631)	(665)	(351)	(271)	(277)	(454)	(1,902)	(942)
% of the present value of Scheme liabilities	0.46	9.33	4.10	1.65	1.48	1.75	1.05	5.31	2.94
Changes in assumptions underlying the present value of Scheme liabilities									
Amount (£000)	(2,421)	2,441	(1,794)	(1,476)	(1,092)	(321)	(3,897)	1,349	(2,115)
% of the present value of Scheme liabilities	10.92	13.97	11.06	6.94	5.96	2.03	8.97	3.77	6.60

Notes to the Accounts

at 31 December 2004

27. Pensions (continued)

Movement in deficit in the scheme over the year is as follows:

	2004 BMS	2004 BMS Harris & Dixon	2004 Total	2003 BMS	2003 BMS Harris & Dixon	2003 Total
	£000	£000	£000	£000	£000	£000
(Deficit)/surplus in scheme at beginning of the year*	(6,682)	(1,598)	(8,280)	(8,194)	(1,580)	(9,774)
Movement in year:						
Current service cost	(576)	(437)	(1,013)	(1,082)	(401)	(1,483)
Net interest cost/return on assets	(296)	28	(268)	(385)	10	(375)
Contributions	1,488	423	1,911	1,417	496	1,913
Past service cost	–	–	–	–	–	–
Actuarial gain/(loss)	(1,956)	(1,179)	(3,135)	1,562	(123)	1,439
Deficit in scheme at the end of the year*	(8,022)	(2,763)	(10,785)	(6,682)	(1,598)	(8,280)

*Amounts are stated gross of deferred tax.

Reconciliation of profit and loss account reserve on FRS 17 basis.

	2004	2003
	£'000	£'000
Profit and loss account reserve as reported at 31 December	14,720	13,686
Pension and post retirement FRS 17 liabilities net of tax	(7,549)	(5,796)
Profit and loss reserve on FRS 17 basis at 31 December	7,171	7,890

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at 31 December 2004

28. Reconciliation of consolidated operating profit to net cash (outflow)/inflow from operating activities

	2004 £000	2003 £000
Operating profit	3,069	3,835
Net interest receivable	(1,625)	(1,547)
Income from unlisted investments	(241)	(440)
Depreciation	1,052	936
Amortisation of goodwill	245	285
Profit on disposal of fixed assets	(14)	(4)
Capital gain on disposal of investments	–	(30)
Net (increase)/decrease in provisions for liabilities and charges	(111)	306
(Increase) in non insurance debtors	(1,197)	(474)
Increase in non insurance creditors	4,361	3,156
(Increase)/decrease in insurance net assets	(9,227)	1,332
Write off fixed asset investments	40	108
Exchange (gain)	(102)	(114)
Net cash (outflow)/inflow from operating activities	(3,750)	7,349

29. Analysis of net funds year ended 31 December 2004

	2003 £000	Cash flow £000	Other changes £000	2004 £000
Cash at bank and in hand	14,497	(8,739)	–	5,758
Current asset investments	109	–	(7)	102
Net funds	14,606	(8,739)	(7)	5,860

30. Reconciliation of net cash flow to movement in net funds

	2004 £000	2003 £000
(Decrease)/increase in cash in period	(8,739)	7,005
Cash flow from decrease in liquid resources	(7)	(56)
Change in net funds	(8,746)	6,949
Net funds at 1 January 2004	14,606	7,657
Net funds at 31 December 2004	5,860	14,606

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at 31 December 2004

31. Analysis of the balances of net cash

	2004 *£000*	*2003* *£000*	*Change in year* *£000*
Insurance cash at bank and in hand	53,774	49,701	4,073
Other cash at bank and in hand	5,758	14,497	(8,739)
	59,532	64,198	(4,666)

32. Post balance sheet event

Effective 1 January 2005, the Group sold its investment in John B. Collins Associates (UK) Ltd at its net asset value.

Since the year end, the Group reorganised certain subsidiaries in preparation for regulation by the Financial Services Authority. Ballantyne, McKean & Sullivan Ltd was renamed BMS Group Ltd and its assets and liabilities were transferred to BMS Group Ltd which was renamed Ballantyne, McKean & Sullivan Ltd.