

FUIT Two Limited
Financial Statements
For the nine month period ended 31st March 1998

RE-SCAN

Registered number 2861345

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FUIT Two Limited
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For the nine month period ended 31st March 1998

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FUIT Two Limited

Company Information

Directors	R. A. M. Baillie (Chairman) A. F. Jackson P. Martin A. Shone J. A. V. Townsend P. R. Withers Green
Secretary	H. Spivey
Members' Agent	Wren Underwriting Agencies Limited 12 Arthur Street London EC4R 9AB
Auditors	Neville Russell Chartered Accountants 24 Bevis Marks London EC3A 7NR
Bankers	Bank of Scotland 38 Threadneedle Street London EC2P 2EH Rea Brothers Limited Alderman's House Alderman's Walk London EC2M 3XR
Company No.	2861345
Registered Office	Alderman's House Alderman's Walk London EC2M 3XR

FUIT Two Limited

Report of the Directors

For the nine month period ended 31st March 1998

The Directors present herewith their annual report, together with the audited financial statements of the Company for the nine month period ended 31st March 1998. These statements have been prepared in accordance with Schedule 9A of the Companies Act 1985.

Results and Dividends

The Company's accounting reference period end has been changed to 31st March from 30th June and the Company made a profit for the period of £786,000 (1997: £525,000). A first interim dividend of £120,000 (1997: £nil) has been paid and the directors recommend a payment of a second interim dividend of £663,000 (1997: £nil). The directors do not propose a final dividend (1997: £520,000).

Review of the Business

The Company is authorised by the Council of Lloyd's to operate as a corporate member of Lloyd's. The Company has allocated premium income capacity as follows:

1998 Underwriting Year of Account	£13,830,370
1997 Underwriting Year of Account	£14,023,222
1996 Underwriting Year of Account	£11,200,000
1995 Underwriting Year of Account	£10,500,000

The 1995 Underwriting Year of Account closed on 31st December 1997 and the Company has made an underwriting profit of £939,000 (1997: £743,000) before agents' expenses and tax but after additional aggregated provisions of £363,000 (1997: £138,000) have been made in respect of syndicates 37 and 718 for the 1994 and 1996 years' of account. The results of the 1996 to 1998 Underwriting Years of Account will be recognised in the financial statements when the respective Year of Account closes.

Under Lloyd's three year accounting rules it is not expected that the results for the 1998 Underwriting Year of Account will be known until the second quarter of the year 2001 (1997 and 1996 Underwriting Years of Account until the second quarter of 2000 and 1999 respectively) at which time these results will be included in the Company's results for that year.

The Company's underwriting activities are supported by a covenant from its ultimate parent company, Wren Plc, to pay up to £7,011,611 where the Company's assets are insufficient to meet its liabilities at Lloyd's.

Directors and Directors' Interests

The Directors who served the Company during the period were:

R. A. M. Baillie (Chairman)
A. F. Jackson
P. Martin
A Shone
J. A. V. Townsend
P. R. Withers Green

The interests of the Directors in the shares of the ultimate holding company, Wren plc, are dealt with in the accounts of that company.

No Director had, during or at the end of the period, any material interest in a contract which was significant in relation to the Company's business, otherwise than as disclosed in the financial statements of the ultimate holding company, Wren Plc.

In accordance with the Articles of Association, Mr P Martin and Mr R A M Baillie retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Managers and Advisors

Finsbury Asset Management Limited (Finsbury) provide company secretarial services to the Company. The relevant agreement between Finsbury and the Company may be terminated by either party giving one years' notice, such notice not to be given prior to 23rd December 1998 without the agreement of both parties. Mr Townsend is a director of Rea Brothers Group plc, the holding company of Finsbury.

Wren Underwriting Agencies Limited (Wren) provide Lloyd's members' agent services to the Company. The relevant agreement may be terminated by either party giving written notice on 31st August in any year. Mr A. F. Jackson is the chairman of, and was a shareholder in, Wren Holdings Group PLC, the holding company of Wren. Mr A Shone is a director and was a shareholder of Wren Holdings Group PLC.

Directors' Responsibilities

The Directors are required by law to prepare financial statements which give a true and fair view of the state of affairs of the Company at the end of the financial period and of the profit of the Company for the period. The financial statements must be prepared in compliance with the requirements of the Companies Act 1985 and with applicable accounting standards. In addition the Directors are required: (a) to select suitable accounting policies and apply them consistently; (b) to make judgements and estimates that are reasonable and prudent; (c) to state whether applicable accounting standards have been followed; and (d) to prepare financial statements on a going concern basis unless it is inappropriate to assume the Company will continue in business.

The Directors confirm that the financial statements comply with these requirements.

The Directors are also responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution will be proposed at the forthcoming annual general meeting to re-appoint Neville Russell as auditors of the Company.

By order of the Board

A handwritten signature in black ink, appearing to be 'H Spivey', written in a cursive style.

H Spivey
Company Secretary

27th July 1998

Auditors' Report

to the Shareholders of FUIT Two Limited

We have audited the financial statements on pages 6 to 22 which have been prepared in accordance with the accounting policies set out on pages 10 to 15.

Respective Responsibilities of Directors and Auditors

As described on pages 3 and 4 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.


Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31st March 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



NEVILLE RUSSELL
CHARTERED ACCOUNTANTS
and Registered Auditors
24 Bevis Marks, London EC3A 7NR
30th July 1998

FUIT Two Limited

Technical Account - General Business Profit and Loss Account

For the nine month period ended 31st March 1998

		Nine months ended 31st March 1998		Twelve months ended 30th June 1997	
		1998	1998	1997	1997
	Note	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance:					
Gross premiums written	1	13,341		9,223	
Outward reinsurance premiums		(1,841)		(1,440)	
		<hr/>		<hr/>	
Net premiums written			11,500		7,783
Allocated investment return transferred from the non-technical account			609		512
Claims paid:					
Gross amount	1	(4,730)		(3,594)	
Reinsurers' share		738		625	
		<hr/>		<hr/>	
		(3,992)		(2,969)	
Change in the provisions for claims:					
Gross amount	1	(2,980)		(3,801)	
Reinsurers' share		(1,380)		1,747	
		<hr/>		<hr/>	
		(4,360)		(2,054)	
Claims incurred, net of reinsurance	2		(8,352)		(5,023)
Net operating expenses	3		(2,818)		(2,529)
			<hr/>		<hr/>
Balance transferred to the non-technical account			939		743

FUIT Two Limited
Non-Technical Profit and Loss Account
For the nine month period ended 31st March 1998

		Nine months ended 31st March 1998	Twelve months ended 30th June 1997
	Note	£'000	£'000
Balance on the general business technical account		939	743
Investment income		675	623
Realised losses on investments		(58)	(102)
Investment expenses and charges		(8)	(9)
Allocated investment return transferred to the general business technical account		(609)	(512)
Other income	4	358	104
Other charges, including value adjustments	5	(85)	(51)
Profit on ordinary activities before tax		1,212	796
Tax on profit on ordinary activities	6	(426)	(271)
Profit for the financial period		786	525
Dividends		(783)	(520)
Profit retained for the financial period	17	3	5

There were no other recognised gains or losses in the period

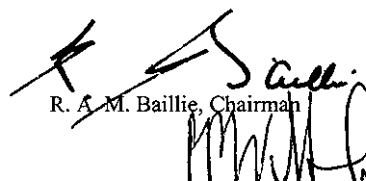
FUIT Two Limited
Balance Sheet
As at 31st March 1998

		As at 31st March 1998			As at 30th June 1997		
Note		Corporate £'000	Syndicate £'000	Total £'000	Corporate £'000	Syndicate £'000	Total £'000
	Intangible assets						
9		205	-	205	-	-	-
	Fixed Asset Investments:						
	Financial Investments	-	9,584	9,584	-	6,726	6,726
	Deposits with ceding undertakings	-	16	16	-	13	13
		-	9,600	9,600	-	6,739	6,739
	Reinsurers' Share of Technical Provisions:						
	Claims outstanding	-	1,768	1,768	-	3,553	3,553
	Debtors:						
	Arising out of direct insurance operations - due from intermediaries	-	3,267	3,267	-	2,472	2,472
	Arising out of reinsurance operations	-	5,396	5,396	-	4,188	4,188
	Premium trust fund releases	(96)	96	-	(573)	573	0
	Other	213	196	409	12	187	199
		117	8,955	9,072	(561)	7,420	6,859
	Other Assets:						
	Cash at bank and in hand	113	566	679	530	896	1,426
	Other	-	167	167	128	587	715
		113	733	846	658	1,483	2,141
	Prepayments and Accrued Income						
12		888	49	937	739	72	811
	Total Assets	1,323	21,105	22,428	836	19,267	20,103

FUIT Two Limited
Balance Sheet (continued)
As at 31st March 1998

		As at 31st March 1998			As at 30th June 1997		
	Note	Corporate £'000	Syndicate £'000	Total £'000	Corporate £'000	Syndicate £'000	Total £'000
Capital and Reserves:							
Called up share capital	16	-	-	-	-	-	-
Revenue reserve	17	8	-	8	5	-	5
Equity Shareholders' Funds	18	8	-	8	5	-	5
Technical Provisions:							
Claims outstanding - gross		-	14,615	14,615	-	15,185	15,185
Provisions for losses foreseen on open years		-	580	580	-	138	138
		-	15,195	15,195	-	15,323	15,323
Provisions for other risks and charges:							
Provision for taxation		452	-	452	122	-	122
Provision for deferred taxation	13	126	-	126	149	-	149
		578	-	578	271	-	271
Creditors:							
Arising from direct insurance operations		-	265	265	-	155	155
Arising from reinsurance operations		-	4,625	4,625	-	2,564	2,564
Other creditors	14	663	1,001	1,664	521	1,210	1,731
		663	5,891	6,554	521	3,929	4,450
Accruals and Deferred Income:	15	74	19	93	39	15	54
Total Liabilities		1,323	21,105	22,428	836	19,267	20,103

The financial statements on pages 6 to 22 were approved by the Board of Directors on 27th July 1998 and were signed on its behalf by


R. A. M. Baillie, Chairman


P. R. Withers Green, Director

NOTES TO THE FINANCIAL STATEMENTS
For the nine month period ended 31st March 1998

I. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

a) Basis of preparation

The financial statements are prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 ('the Act').

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

b) Recognition of insurance transactions

Preparing financial statements in accordance with Section 255 of, and Schedule 9A to, the Act has meant the Company recognises its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates ('the syndicates').

For each such syndicate, the Company's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the Company's technical profit and loss account. Similarly, its proportion of each syndicate's assets and liabilities has been reflected in its balance sheet (under the column heading 'syndicate'). Syndicate assets are held subject to trust deeds for the benefit of the Company's insurance creditors.

The proportion referred to above is calculated by reference to the Company's participation as a percentage of each syndicate's total capacity.

The Company has delegated sole management and control of its underwriting through each syndicate to its Members' Agent, who deals with the Managing Agent of the syndicate ('the Managing Agent'). The Managing Agents of the syndicates are therefore responsible for determining the insurance transactions to be recognised by the Company. The only exception to this rule is the level of provision for outstanding claims on open or run-off years of account of syndicates. These provisions are determined by the directors of the Company after consultation with the Members' Agent.

c) Sources of data

The information used to compile the technical account and the 'syndicate' balance sheet is based on returns prepared for this purpose by the Managing Agents of each syndicate ('the Returns'). These Returns have been subject to audit by the syndicate auditors and are based on the audited syndicate returns to Lloyd's and the audited annual reports to syndicate members. This base data has been adjusted as necessary to reflect the differences in preparation between syndicate annual reports and financial statements in accordance with Schedule 9A.

NOTES TO THE FINANCIAL STATEMENTS
For the nine month period ended 31st March 1998

The format of the Returns has been established by Lloyd's and Lloyd's has also been responsible for collating the data at a syndicate level and analysing it into corporate member level results.

The Returns cover the 12 months to 31 December 1997. No syndicate transactions in respect of the period from 1st January 1998 to the Company's period end have been included in the financial statements, nor has any adjustment been made to the Returns to reflect the fact that the Company's accounting periods to 31st March 1998 and 30th June 1997 were not coterminous with the Returns.

II. ACCOUNTING POLICIES

a) Basis of accounting for underwriting results

All classes of insurance business written are accounted for on a three year funded basis because it is the basis most similar to that followed by the syndicates. The nature of the information Managing Agents can make available is insufficient for the company to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Under the three year funded basis followed by the Company, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts beginning in an accounting period ('the underwriting year') is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Consequently, no profit is recorded in respect of an underwriting year until that time at the earliest. Profit is only recorded if a syndicate has been able to effect a 'reinsurance to close' (see (e) below) in respect of that underwriting year.

If in an underwriting year a loss is expected to be made, the loss is recorded as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses.

b) Premiums

Premiums written comprise the total premiums receivable for the whole period of cover provided by contracts beginning during the financial year, together with any adjustments arising in the year to such premiums receivable in respect of business written in previous years.

Premiums are shown gross of commission payable to intermediaries and exclude insurance premium tax.

Gross premiums written may include 'reinsurance to close' premiums receivable. See (e) below for further details.

NOTES TO THE FINANCIAL STATEMENTS
For the nine month period ended 31st March 1998

Premiums written by a syndicate may also include the reinsurance of other syndicates in which the Company participates. No adjustments have been made to gross premiums written or outward reinsurance premiums (or to gross and reinsurers' claims) to remove this intersyndicate reinsurance.

c) Claims incurred

Claims incurred include the costs of claims handling expenses. Recoverable amounts arising out of subrogation or salvage are deducted from the cost of claims. Claims incurred comprise amounts paid or provided in respect of claims occurring during the year to 31st December, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year. For further details of 'reinsurance to close' payable, which is included in claims incurred, see (e) below.

d) Provision for claims

Provision is made for claims incurred but not paid in respect of events up to 31st December 1997. The provision includes the amounts required to ensure that neither a profit nor a loss is recorded before the end of the third year under the three year funded basis of accounting, see 1(b) above.

The provision has been increased as appropriate by the Directors to the extent that deficits are anticipated on underwriting years at the 12 and 24 months stage or on underwriting years not closed at the 36 month stage at the balance sheet date.

In deciding whether any such additional provision is necessary syndicate participations have been considered in aggregate as each year's Lloyd's underwriting is managed together.

Any additional provision is determined by Directors following discussions with the Company's Members' Agent.

e) Reinsurance to close

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates. Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to the closed year in consideration of:

NOTES TO THE FINANCIAL STATEMENTS
For the nine month period ended 31st March 1998

- a) a premium; and
- b) either
 - i) the assignment, or agreement to assign, to the reinsuring members of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitations the right to receive all future premiums, reinsurances and other monies receivable in connection with that insurance business); or
 - ii) an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefit so far as they are not applied in discharge of the liabilities of the reinsured members.

Where the reinsurance to close is between members on successive years of account of the same syndicate, the Managing Agent has a duty to ensure both groups of members are treated equitably and to set the reinsurance to close with the intention that neither a profit nor a loss accrues to either group.

To the extent that the Company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

If the Company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the Company has assumed a greater proportion of the business of the syndicate. If the Company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving a element of reinsurance to close paid. This reflects the reduction in the company's exposure to risks previously written by the syndicate.

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims.

In the opinion of the directors, the chances of the reinsurance security failing are remote and, since payment of a reinsurance to close is conventionally considered as terminating a reinsured member's participation on a syndicate year of account, it is treated for accounts purposes as settling the company's gross liabilities arising out of the corresponding participation on the year of account closed.

NOTES TO THE FINANCIAL STATEMENTS
For the nine month period ended 31st March 1998

f) Investments

Investments are treated as sold and repurchased at each 31st December in recognition of the annual venture nature of participation on a syndicate. Their cost is therefore their market value at that date.

g) Investment income

Investment income comprises interest receivable and dividends received plus realised gains on the disposal of investments. Realised gains and losses arise from the difference between proceeds and cost.

The realised gains reported by syndicates are net of any realised losses.

All investment income net of realised losses arising on syndicate participations is allocated to the technical account. Other investment income is attributable to the non-technical account.

h) Investment expenses and charges

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments. Realised losses arise from the difference between proceeds and cost. The realised losses reported by syndicates are net of any realised gains.

i) Net operating expenses

Operating expenses have been charged to the underwriting year for which they were incurred. These include the company's share of syndicate operating expenses, the remuneration payable to Managing Agents (and the company's Members' Agent/licensed adviser) and the direct costs of membership of Lloyd's.

j) Foreign currencies

Transactions in foreign currencies other than sterling, United States dollars and Canadian dollars are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars and Canadian dollars and assets and liabilities in currencies other than sterling are translated at the rate of exchange ruling at 31st December. Exchange differences arising on translation are dealt with in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS
For the nine month period ended 31st March 1998

k) Syndicate participation rights

Where the Company has purchased the right to participate on syndicates, the cost is capitalised and amortised in equal annual instalments over 3 years. Amortisation commences at the end of the third year from the start of the Company's first underwriting year on the syndicate.

If, at any time, the directors become aware of a permanent diminution in the value of the Company's right to participate on a syndicate, the asset will be written down accordingly. If a syndicate right is sold then any related costs are offset against the disposal proceeds and any gain/loss is taken to the non-technical profit and loss account, in the same period.

l) Taxation

The Company is taxed on its share of the underwriting results declared by syndicates and for tax purposes these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these financial statements (excluding any additional provisions made by Directors) relate to the 1995 Year of Account and have been declared for tax purposes in the calendar year 1998.

The Inland Revenue determines the taxable results of individual syndicates on the basis of computations submitted by the Managing Agent. At the date of approval of these financial statements, none of the syndicate taxable results have been agreed. Any adjustments that may be necessary to the tax provisions established by the Company as a result of Inland Revenue agreement of the taxable results of individual syndicates will be reflected in the financial statements of subsequent periods.

Other profits are recognised and assessable to corporation tax in the same period, after adjustment in accordance with tax legislation.

m) Deferred taxation

Deferred tax is provided in respect of the tax effect of all timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future, at the rates of tax expected to apply when the timing differences reverse. One such timing difference is that between when underwriting results are reported for accounting purposes and when they are declared for tax purposes.

1 Segmental Information - nine months ended 31st March 1998

	Gross Premiums Written £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Business:					
Accident & Health	80	(136)	(36)	(57)	(149)
Motor - third party liability	2,077	(2,568)	(436)	(188)	(1,115)
Motor - other classes	1,510	(759)	(362)	(133)	256
Marine, Aviation & Transport	2,063	(790)	(594)	(81)	598
Fire and other Damage to Property	1,790	(780)	(588)	(348)	74
Third Party Liability	1,472	995	(463)	(1,593)	411
Credit and Suretyship	20	9	(6)	(18)	5
Legal Expenses	6	(2)	(1)	(1)	2
Other	15	(66)	15	42	6
Total Direct	9,033	(4,097)	(2,471)	(2,377)	88
Reinsurance Business:					
Reinsurances Acceptances	1,345	(518)	(347)	(319)	161
Reinsurance to Close	2,963	(3,095)	-	213	81
Total Reinsurance	4,308	(3,613)	(347)	(106)	242
Total	13,341	(7,710)	(2,818)	(2,483)	330

Included in gross claims incurred is total reinsurance to close payable of £3,370,000

1 Segmental Information - year ended 30th June 1997

	Gross Premiums Written £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total £'000
Direct Business:					
Accident & Health	1	(80)	(23)	23	(79)
Motor - third party liability	1,381	(979)	(328)	12	86
Motor - other classes	1,084	(1,270)	(259)	(13)	(458)
Marine, Aviation & Transport	1,508	(1,588)	(506)	44	(542)
Fire and other Damage to Property	849	(488)	(262)	(83)	16
Third Party Liability	388	(833)	(130)	939	364
Credit and Suretyship	35	(11)	(10)	(2)	12
Legal Expenses	3	(2)	(1)	(1)	(1)
Other	329	(197)	(91)	(49)	(8)
Total Direct	5,578	(5,448)	(1,610)	870	(610)
Reinsurance Business:					
Reinsurances Acceptances	3,286	(1,915)	(919)	8	460
Reinsurance to Close	359	(32)	-	54	381
Total Reinsurance	3,645	(1,947)	(919)	62	841
Total	9,223	(7,395)	(2,529)	932	231

Included in gross claims incurred is total reinsurance to close payable of £32,000

	31st March 1998 £'000	30th June 1997 £'000
Gross premiums in respect of direct business written in:		
United Kingdom	8,945	5,443
Other EU Member States	27	18
Rest of World	61	117
	9,033	5,578

2 Claims Incurred, Net of Reinsurance

	1998 £'000	1997 £'000
Gross		
1994 Year of Account	531	(3,643)
1995 Year of Account	(3,091)	4,284
1996 Year of Account	4,867	6,754
1997 Year of Account	5,403	-
	<u>7,710</u>	<u>7,395</u>
Reinsurance		
1994 Year of Account	(247)	309
1995 Year of Account	1,690	(1,506)
1996 Year of Account	(406)	(1,175)
1997 Year of Account	(395)	-
	<u>642</u>	<u>(2,372)</u>
Net claims incurred	<u>8,352</u>	<u>5,023</u>

3 Net Operating Expenses

	1998 £'000	1997 £'000
Acquisition costs	2,095	1,268
Administrative expenses	428	315
Profit/(loss) on exchange	(111)	250
Names' personal expenses on Lloyd's syndicates	406	696
	<u>2,818</u>	<u>2,529</u>

4 Other income

	1998 £'000	1997 £'000
Interest Receivable	37	46
Interest on Premium Trust Fund releases	154	24
Exchange Gain	20	-
Sale of Syndicate capacity	147	34
	<u>358</u>	<u>104</u>

5 Other charges

	1998 £'000	1997 £'000
Lloyd's Members fees	-	10
5% Profit Commission	76	37
Auditors remuneration - for audit services	4	-
Other	5	4
	<u>85</u>	<u>51</u>

6 Taxation

	1998 £'000	1997 £'000
Corporation tax @ 31% (1997: 33%)	344	122
Overseas tax	108	-
Deferred tax (see note 13)	(23)	149
Over provision in respect of prior years	(3)	-
	<u>426</u>	<u>271</u>

7 Other debtors

	1998 £'000	1997 £'000
Other	12	12
Amounts due from group undertakings	201	-
	<u>213</u>	<u>12</u>

8 Financial investments

	1998 £'000	1997 £'000
Shares and other variable yield securities	1,331	595
Debt securities and other fixed interest securities	7,152	5,015
Loans guaranteed by mortgage	15	10
Deposits with credit institutions	1,023	987
Other investments	63	119
	<u>9,584</u>	<u>6,726</u>

9 Intangible assets

	1998 £'000	1997 £'000
Opening Balance	-	-
Additions	205	-
Disposals	(147)	-
Gains	147	-
Closing Balance	205	-

Intangible assets are the purchase costs of the Company's participations in certain Lloyd's syndicates.

10 Cash at bank and in hand

	1998 £'000	1997 £'000
Cash at Lloyd's	113	530

11 Other assets

	1998 £'000	1997 £'000
UK: Government bonds held in Premium Trust Funds at Lloyd's	-	128

12 Prepayments and Accrued Income

	1998 £'000	1997 £'000
Accrued Income	888	739
Prepaid Expenses	-	-
	888	739

13 Provision for deferred taxation

	1st July 1997 £'000	Movement £'000	31st March 1998 £'000
Deferred tax	149	(23)	126
Represented by:			
Declared underwriting profits	159	13	172
Provision for future underwriting losses	(45)	(36)	(81)
Other timing differences	35	-	35
	149	(23)	126

14 Other creditors

	1998 £'000	1997 £'000
Amounts due to Ultimate Parent Undertaking	-	1
Other	663	520
	<u>663</u>	<u>521</u>

15 Accruals and Deferred Income

	1998 £'000	1997 £'000
Accrued Expenses	74	37
Deferred Income	-	2
	<u>74</u>	<u>39</u>

16 Share Capital

	1998 £	1997 £
Authorised: 1,000 ordinary shares of £1	<u>1,000</u>	<u>1,000</u>
Allotted, issued and fully paid: 2 ordinary shares of £1	<u>2</u>	<u>2</u>

17 Reserves

	1998 £'000	1997 £'000
Balance as at 1st July	5	-
Profit retained for the financial period	3	5
	<u>8</u>	<u>5</u>
Balance as at 31st March/30th June		

18 Movement in Shareholders' Funds

	1998 £'000	1997 £'000
Opening shareholders' funds	5	-
Total recognised gains for the period	786	525
Dividends	(783)	(520)
	<u>8</u>	<u>5</u>
Closing shareholders' funds		

19 Contingent Liabilities

(i) Lloyd's

If any of the other corporate member subsidiaries of the Group fail to meet any of their obligations, after having called on Wren plc under its guarantees, then:

- (a) Lloyd's will be entitled to require any of the Group's subsidiaries to cease or reduce their underwriting; and/or
- (b) having regard to the fact that the Central Fund may be applied to discharge the obligations of the defaulting corporate member subsidiary, Lloyd's will be entitled to require each of the other corporate member subsidiaries of the Group to make contributions to the Central Fund up to the amount of their respective net profits held from time to time in Premiums Trust Funds, sufficient to reimburse the Central Fund in full for any payment made on behalf of the defaulting member.

At the date of these financial statements the Company is not aware of any of the other corporate member subsidiaries of the Group failing to meet any of their Lloyd's obligations.

(ii) Taxation

As explained in the Accounting Policies Note on taxation, the taxable results of the company depend on the taxable results of the Syndicates on which it participates.

The Syndicate results for the 1994 year of account have still to be finally determined. One of the reasons for this delay is the Inland Revenue's contention that the reinsurance to close 1994 should be subject to a disallowance to reflect the net present value of the claims payable by that year of account. The validity of such an adjustment to "discount" the reinsurance to close is being strongly contested by the Managing Agents involved but, if the Inland Revenue is successful in asserting its contention for 1994 and subsequent years of account, the directors consider that there will be a permanent acceleration in the payment of tax by the Company.

To the extent that the discounting of disallowances is expected to become a constant recurring feature of the Company's tax computations, the Company will also suffer an increase to its overall tax charge as, under the provisions of SSAP 15, no deferred tax benefit can currently be recognised in such circumstances.

The total tax charge of £426,000 has been calculated on the basis that the Inland Revenue will not be successful in its attempts to apply discounting to the reinsurances to close either the 1994 or 1995 years of account.

It is not currently practicable for the Directors of the Company to quantify the adjustment that would be necessary to the above tax charge should the Inland Revenue succeed in its arguments with Managing Agents.

20 Ultimate Holding Company

The Company regards Wren plc, which is registered in England, as its ultimate holding company.