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HASTINGS INSURANCE SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS 1998

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HASTINGS INSURANCE SERVICES LIMITED

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HASTINGS INSURANCE SERVICES LIMITED

Directors

P O Sheridan - Chairman
G D Gundlach - Managing Director
T Sugisawa
Y Yamazaki - M Harada (Alternate)
D J Titterington
R G McKibbin

Secretary

R G McKibbin ACII

Auditors

Ernst & Young

Principal Office

Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex TN34 3LW
Tel : 01424 735735 Fax : 01424 735730

Registered Office

Rose Lane Business Centre, Rose Lane, Norwich NR1 1JY
Registered Number 3116518

Ultimate Holding Company

The Chiyoda Fire and Marine Insurance Company Limited,
No 28-1, Ebisu 1-chome, Shibuya-ku, Tokyo 150, Japan.
Tel : 00 813 5424 1001 Fax : 00 813 5424 9382

HASTINGS INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

The Directors submit their Report and Accounts of the Company for the year ended 31st December 1998.

PRINCIPAL ACTIVITY

The principal activity of the company continued to be the provision of insurance services.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

There have been no significant changes in the activities of the Company in its second year of trading. Turnover has increased to £10,355,113 (1997 - £7,214,649).

RESULTS FOR THE YEAR

The profit for the year after taxation amounted to £381,472 (1997 - £460,488), which has been transferred to reserves.

The Directors do not recommend the payment of a dividend.

DIRECTORS

The names of the Directors at the date of this Report appear on page 2.

According to the register kept for the purposes of the Companies Act 1985, no Director has any beneficial interest in the shares of the Company.

EMPLOYEES

The Directors recognise that staff should be kept informed, so far as practicable, on matters of interest and concern to them as employees. Their views are sought and taken into account in making decisions which affect them. Information is conveyed through meetings and the distribution of circulars.

The Company is very conscious of the difficulties experienced by people with disabilities. Its attitude to the employment of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion, and it will take sympathetic account of individual circumstances.

HASTINGS INSURANCE SERVICES LIMITED

YEAR 2000

The Company has been fully aware of the possible impact of the Year 2000 issue since preparations for its launch were made in 1996. All computer and telecommunications equipment has been certified as being year 2000 compliant and extensive additional testing has been carried out to ensure that policies incepting during 1999 are unaffected by this issue.

The Company has begun assessment of its business operations and the potential impact of the Year 2000 issue in respect of its suppliers. The company has made contact with all of its significant business partners to determine their plans for achieving year 2000 compliance. Based upon this assessment, the Company will establish a strategy to deal with any company's inability to achieve compliance.

The Company reasonably believes that it is year 2000 compliant. The company's understanding is that all its services and internal mission-critical systems, including financial and claims reporting, and information technology systems will accurately process date and time data from throughout the relevant period ; that they will have substantially the same functionality on or after 1st January 2000 as they did prior to that date and that they will continue to operate without causing significant disruption to the core business of the Company.

PAYMENT POLICY

It is the Company's policy in respect of its suppliers:

- (a) to settle terms of payment with those suppliers when agreeing the terms of each transaction.
- (b) to ensure that those suppliers are made aware of the terms of payment
- (c) to abide by the terms of payment

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution will be submitted at the Annual General Meeting proposing their re-appointment and authorising the Directors to fix their remuneration.

DONATIONS

The company made donations of £10,000 (1997 - £10,000) for charitable purposes. No donations were made to political organisations.

By Order of the Board



RG McKIBBIN

Secretary

21st April 1999

HASTINGS INSURANCE SERVICES LIMITED

STATEMENT OF THE 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 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;
- prepare accounts on the going concern basis until it is inappropriate to presume that the Company will continue in business.

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

HASTINGS INSURANCE SERVICES LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF HASTINGS INSURANCE SERVICES LIMITED

We have audited the accounts on pages 7 to 18, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 10 and 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 5 the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all 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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of the profit for the year then ended and have been prepared in accordance with the Companies Act 1985.

ERNST & YOUNG
Registered Auditor
Norwich



21.4.99

HASTINGS INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

	Notes	1998 £	1997 £
Turnover		10,355,113	7,214,649
Other operating income		246,933	775,000
Administrative expenses		<u>9,673,614</u>	<u>7,116,310</u>
OPERATING PROFIT		928,432	873,339
Interest payable and similar charges	6	<u>263,465</u>	<u>175,170</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	664,967	698,169
Taxation	7	<u>(283,495)</u>	<u>(237,681)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u><u>381,472</u></u>	<u><u>460,488</u></u>
STATEMENT OF RETAINED PROFITS / (LOSSES)			
Balance brought forward		(361,641)	(822,129)
Balance for the year	9	<u>381,472</u>	<u>460,488</u>
RETAINED PROFITS / (LOSSES) CARRIED FORWARD		<u><u>19,831</u></u>	<u><u>(361,641)</u></u>

There are no recognised gains or losses other than the profit for the year.

The notes on pages 10 to 18 form an integral part of these accounts.

HASTINGS INSURANCE SERVICES LIMITED

BALANCE SHEET **as at 31 December 1998**

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	10	3,542,975	3,024,818
CURRENT ASSETS			
Debtors	11	9,322,473	7,664,195
Cash at bank and in hand		347,394	207,573
		<u>9,669,867</u>	<u>7,871,768</u>
CREDITORS: Amounts falling due within one year	12	(12,692,361)	(10,328,701)
NET CURRENT LIABILITIES		<u>(3,022,494)</u>	<u>(2,456,933)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		520,481	567,885
CREDITORS: Amounts falling due after more than one year	13	(495,650)	(924,526)
NET ASSETS / (LIABILITIES)		<u>24,831</u>	<u>(356,641)</u>
CAPITAL AND RESERVES			
Share Capital	14	5,000	5,000
Profit and loss account		<u>19,831</u>	<u>(361,641)</u>
SHAREHOLDERS' FUNDS (including non-equity interests)		<u>24,831</u>	<u>(356,641)</u>

Approved by the Board of Directors and signed on its behalf

Director 

Director 

21st April 1999

The notes on pages 10 to 18 form an integral part of these accounts.

HASTINGS INSURANCE SERVICES LIMITED

CASH FLOW STATEMENT

for the year ended 31 December 1998

	Notes	1998 £	1997 £
Net cash inflow from operating activities	2	1,283,704	976,052
Returns on investments and servicing of finance			
Interest paid	6	(263,465)	(175,170)
Net cash (outflow) from returns on investment and servicing of finance		<u>(263,465)</u>	<u>(175,170)</u>
Capital expenditure & financial investments			
Purchase of tangible fixed assets		(386,081)	(663,098)
Sales of tangible fixed assets		2,400	-
Net cash (outflow) for capital expenditure		<u>(383,681)</u>	<u>(663,098)</u>
Net cash inflow		636,558	137,784
Financing			
Capital element of finance lease rental repayments	15	(871,891)	(557,447)
Net cash (outflow) from financing		<u>(871,891)</u>	<u>(557,447)</u>
(Decrease) in cash		<u>(235,333)</u>	<u>(419,663)</u>

HASTINGS INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS

1. Statement of accounting policies

(a) Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts have been prepared under the going concern concept because the parent undertaking has agreed to provide adequate funds for the company to meet its liabilities as they fall due.

(b) Turnover

Turnover comprises commission in respect of insurance policies together with finance charges received in respect of premiums payable by instalments. Commission is not recognised until the relevant policy comes in to force. Full provision has been made for commission repayable to insurance companies in the event of policy cancellation.

(c) Tangible Fixed Assets

Tangible Fixed Assets are depreciated on a straight line basis over an appropriate period and are stated in the balance sheet at cost less accumulated depreciation. All fixed assets are depreciated over 4 years.

(d) Deferred Tax

Deferred taxation is provided for using the liability method to the extent that it is likely to crystallise in the foreseeable future.

(e) Leasing Commitments

Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under the leases is included within liabilities in the balance sheet.

Rentals payable under operating leases and the interest element of obligations under finance leases are charged to income on a straight line basis over the term of the lease.

HASTINGS INSURANCE SERVICES LIMITED

(f) Pensions

Some employees participate in a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

(g) Government grants

Revenue grants received and receivable are credited to income so as to match them to the expenditure to which they relate.

(h) Insurance Debtors and Creditors

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

2. Profit on ordinary activities before taxation

a) The profit on ordinary activities before taxation is stated after charging / (crediting) :-

	1998	1997
	£	£
Audit fee	16,800	15,000
Fees for non-audit services	1,000	840
Depreciation	1,179,416	704,953
Operating lease rentals - land and buildings	97,500	65,000
Operating lease rentals - other	-	10,662
Government grants received / receivable	(195,000)	(775,000)

Depreciation in respect of assets held under finance leases amounted to £712,636 (1997 - £434,935)

b) Reconciliation of operating profit to net cash inflow from operating activities :-

	1998	1997
	£	£
Operating profit	928,432	873,339
Depreciation charges	1,179,416	704,953
(Increase) in debtors	(1,658,278)	(7,222,466)
Increase in creditors	834,134	6,620,226
Cash inflow from operating activities	1,283,704	976,052

HASTINGS INSURANCE SERVICES LIMITED

3. Reconciliation of movement in shareholders' funds

	1998	1997
	£	£
Opening shareholders' funds	(356,641)	(817,129)
Balance for the year	381,472	460,488
Closing shareholders' funds	<u>24,831</u>	<u>(356,641)</u>
Shareholders' funds		
Equity interest	23,581	(357,891)
Non-equity interest	1,250	1,250
	<u>24,831</u>	<u>(356,641)</u>

4. Director's Emoluments

The emoluments of the Directors for the year were as follows:

	1998	1997
	£	£
Emoluments	158,436	301,954

Negotiations with a former director of the company are continuing regarding potential compensation for loss of office. At the date of signing the accounts the matter remains in dispute and no amount has been included within the directors emoluments in respect of this issue.

5. Staff Costs

Staff costs were as follows :-

	1998	1997
	£	£
Salaries	3,073,200	1,759,078
Social security costs	231,253	139,705
Pension costs	35,069	59,331
	<u>3,339,523</u>	<u>1,958,114</u>

The average number of persons employed during the year was :-

Sales and Customer Services	205	97
Claims	27	10
Administration	67	43
	<u>299</u>	<u>150</u>

The total number of employees as at 31st December 1998 was 367 (1997 - 246).

HASTINGS INSURANCE SERVICES LIMITED

6. Interest Payable

Interest payable comprises :

	1998	1997
	£	£
Interest on loan from holding company	123,457	105,081
Finance charges payable under finance leases	140,008	70,089
	<u>263,465</u>	<u>175,170</u>

7. Tax on profit on ordinary activities

	1998	1997
	£	£
UK corporation tax	-	-
Group relief	255,038	(244,156)
Deferred tax	(51,019)	481,837
Adjustment for under provision in prior years	79,476	-
	<u>283,495</u>	<u>237,681</u>

8. Deferred Taxation

	£
Brought forward as at 1st January 1998	(47,309)
Movement in the year	<u>51,019</u>
Carried forward as at 31st December 1998	<u>3,710</u>

	1998	1997
	£	£
Deferred tax comprises:		
Short term timing differences	3,710	(47,309)
	<u>3,710</u>	<u>(47,309)</u>

9. Movements on reserves

	Share Capital	Profit and Loss Account	Total Shareholders' Funds
	£	£	£
Brought forward as at 1st January 1998	5,000	(361,641)	(356,641)
Profit for the year	-	381,472	381,472
Carried forward as at 31st December 1998	<u>5,000</u>	<u>19,831</u>	<u>24,831</u>

HASTINGS INSURANCE SERVICES LIMITED

10. Fixed Assets

	Fixtures and Fittings £	Computer Equipment £	Motor Vehicles £	Leasehold Improvements £	Total £
Cost :					
As at 1 January 1998	234,680	2,897,041	4,800	616,194	3,752,715
Purchases in the year	344,969	1,026,558	13,000	315,446	1,699,973
Disposals	-	-	(4,800)	0	(4,800)
As at 31 December 1998	579,649	3,923,599	13,000	931,640	5,447,888
Depreciation :					
As at 1 January 1998	53,803	539,625	1,400	133,069	727,897
Charge for the year	97,589	878,768	1,542	201,517	1,179,416
Disposals	-	-	(2,400)	0	(2,400)
As at 31 December 1998	151,392	1,418,393	542	334,586	1,904,913
Net book value :					
As at 31 December 1998	428,257	2,505,206	12,458	597,054	3,542,975
At 31 December 1997	180,877	2,357,416	3,400	483,125	3,024,818

The net book value of computer equipment above includes £2,398,847 (1997 - £1,798,217) in respect of assets held under finance leases.

11. Debtors

Debtors comprises :-

	1998 £	1997 £
Trade debtors	6,861,972	6,376,891
Amounts owed by Chiyoda Fire & Marine (Europe) Limited	1,757,466	739,482
Other debtors	388,312	244,156
Prepayments and accrued income	314,723	303,666
	9,322,473	7,664,195

HASTINGS INSURANCE SERVICES LIMITED

12. Creditors : amounts falling due within one year

Creditors comprises :-

	1998	1997
	£	£
Trade creditors	842,355	1,751,079
Obligations under finance leases (see note 15)	1,646,151	775,275
Bank overdraft	1,009,778	634,624
Amounts owed to Chiyoda Fire & Marine (Europe) Limited	7,632,632	6,141,773
Accruals and deferred income	1,471,309	866,345
Other creditors including taxes and social security	90,136	159,605
	12,692,361	10,328,701

13. Creditors : amounts falling due after more than one year

	1998	1997
	£	£
Obligations under finance leases (see note 15)	495,650	924,526

14. Share Capital

	£
Authorised share capital	5,000
Allotted, called up and fully paid	
A Ordinary shares of £1 each	3,750
B Ordinary shares of £1 each	625
C Ordinary shares of £1 each	625
	5,000

The holders of the A Ordinary shares are entitled to participate in the distributable profits of the Company and are thus entitled to any dividends declared. The holders of B and C Ordinary shares have no entitlement to participate in any distributable profits. A,B and C shares carry one vote per member with B and C shareholders acting together as one member.

HASTINGS INSURANCE SERVICES LIMITED

15. Financial commitments

Finance leases

Amounts payable in respect of finance leases are as follows :

	1998	1997
	£	£
Amounts payable within one year	1,802,336	868,831
In two to five years	595,184	1,078,642
	<u>2,397,520</u>	<u>1,947,473</u>
Less : finance charges allocated to future periods	255,719	247,672
	<u>2,141,801</u>	<u>1,699,801</u>

Finance lease obligations are analysed as follows:

Current obligations (see note 12)	1,646,151	775,275
Non-current obligations (see note 13)	495,650	924,526
	<u>2,141,801</u>	<u>1,699,801</u>

Analysis of changes in finance leases during the year:

Balance at 1 January 1998	1,699,801
Inception of finance lease contracts	1,313,891
Capital element of finance lease payments	<u>871,891</u>
Balance at 31 December 1998	<u>2,141,801</u>

Finance leases entered into after the balance sheet date in respect of computer equipment amount to £94,242 (1997 - £45,934).

Other commitments / contingencies

The Company has entered into an operating lease with the holding company in respect of property.

The annual commitments under this lease which expires in five years or more, follow a pattern which reflects the benefit derived by the Company in respect of the use of the property. The total payable during the following year is £130,000 (1997 - £97,500).

The amount receivable in the year in respect of revenue grants totalled £195,000 (1997 - £775,000). Grants received may be repayable to the Government if the Company fails to sustain the required level of employment positions for 3 years after the final payment of grant is received. The final grant application was submitted during 1998 and the funds were received in February 1999.

HASTINGS INSURANCE SERVICES LIMITED

16. **Cash flow** **Analysis of net debt**

	1 January 1998 £	Cash flow £	Other non- cash movements £	31 December 1998 £
Cash at bank and in hand	207,573	139,821	-	347,394
Bank overdrafts	(634,624)	(375,154)	-	(1,009,778)
	(427,051)	(235,333)	-	(662,384)
Finance leases	(1,699,801)	(871,891)	429,891	(2,141,801)
	(2,126,852)	(1,107,224)	429,891	(2,804,185)

Reconciliation of net cash flow to movement in debt

	1998 £	1997 £
(Decrease) in cash in the period	(235,333)	(419,663)
Finance leases	(442,000)	(1,297,245)
Movement in net debt in the period	(677,333)	(1,716,908)
Net debt at beginning of period	(2,126,852)	(409,944)
Net debt at end of period	(2,804,185)	(2,126,852)

17. **Related party transactions**

For the purpose of these accounts the holding company, the Chiyoda Fire and Marine Insurance Company (Europe) Limited and the minority shareholder, Logan Consultants Limited have been treated as related parties.

During the year the Company paid £97,500 (1997 - £65,000) under an operating lease in respect of property. Annual commitments under this lease are disclosed in note 15. Balances due to and from the holding company are disclosed in notes 12 and 13.

Related party income / (expenditure) during the year was as follows :-

	1998 £	1997 £
Insurance commissions receivable	6,277,504	4,522,263
Management charges	(65,000)	(50,000)
Lease rentals	(97,500)	(65,000)
Interest payable on loan from holding company	(123,457)	(105,081)

HASTINGS INSURANCE SERVICES LIMITED

18. Fixed and floating charge

A fixed and floating charge over all assets of the Company for securing all monies due or to become due to the intermediate holding company was granted by the Company in the period.

19. Subsidiary undertakings

Investments in subsidiary undertakings as at 31st December 1998 were as follows :-

	Shareholding % Class	Principal Activity
Hastings Direct Limited	100% Ordinary	Dormant
1st Advantage Insurance Services Limited	100% Ordinary	Dormant

All investments in subsidiary companies are held directly by the Company.

20. Holding Company

The intermediate holding company is The Chiyoda Fire and Marine Insurance Company (Europe) Limited, which is incorporated in England and Wales. It has included the Company in its group accounts, copies of which are available from its registered office, Rose Lane Business Centre, Rose Lane, Norwich NR1 1JY. The ultimate holding company is The Chiyoda Fire & Marine Insurance Company Limited which is incorporated in Japan. The address of the ultimate holding company is shown on page 2 of these accounts.

21. Consolidated Accounts

The Company is exempt from preparing consolidated group accounts by virtue of Section 228 of the Companies Act 1985. Its results are included in the financial statements of its parent undertaking, The Chiyoda Fire and Marine Insurance Company (Europe) Limited.