

COMPANY NUMBER 3209941

1998

Membership Services General Limited

DIRECTORS' REPORT AND ACCOUNTS FOR THE YEAR ENDED 31st DECEMBER 1998



Registered office:
Academy Place
1 - 9 Brook Street
Brentwood
Essex CM14 5NQ



**Directors' report and accounts
for the Year ended 31st December 1998**

Contents

Page:

1 - 4	Report of the directors
5	Directors' responsibilities for the financial statements
6 - 7	Auditors' report
8	Profit and loss account
9	Balance sheet
10	Cash flow statement
11 - 18	Notes to the accounts

Membership Services General Limited

Directors	B D Granger	C J Wacey
	R D Howe	J M Wilkinson (Resigned 28.2.99)
	R A Proudman (Resigned 5.7.99)	G M Wright
	M W Rutherford	
Joint Secretaries	I Richardson	R Nixon
Auditors	PricewaterhouseCoopers	Simmons Gainsford

Report of the Directors for the Year ended 31st December 1998

Review of Activities

The Company is engaged in offering general insurance business as an intermediary.

During the year the Company's business volumes were lower than originally anticipated resulting in a loss of £1,522k (1997: £1,889.5k). The directors continue to seek new opportunities for the Company and expect significant increases in written premiums and commission income over the coming year.

Results and Dividends

The directors do not recommend the payment of a final dividend for the year.

Year 2000

The Company has implemented plans with the objective of ensuring that its computer systems and those of its principal suppliers are Year 2000 compliant and that "embedded chips", such as those used to control plant and equipment in buildings owned or occupied by the Group, will operate without material difficulties through the Year 2000 date change.

The plans and progress on implementation have been subject to independent review by external consultants. The major part of the work has been completed and work on all remaining areas is scheduled for completion by the end of August 1999.

The total compliance cost is expected to be approximately £500,000. This includes both external and internal costs, the latter being principally the cost attributable to employees working on the project. As at 31st December 1998, expenditure of £153,000 had been incurred.

Report of the Directors (Continued)

Directors

The names of the directors of the Company at the date of this report appear on page 1.

Directors' Interests

None of the directors had any interest in the shares of the Company during the Year.

According to the register kept under Section 325 of the Companies Act 1985, the interests of directors in the share capital of the ultimate parent company, Guardian Royal Exchange plc, and its subsidiary undertakings at 1st January 1998 and at 31st December 1998 are as set out below.

	Ordinary shares held in Guardian Royal Exchange plc					
	Beneficially Owned			Conditional Interests		
	5p shares at 1.1.98	5¼p shares at 1.1.98 (as restated)	5¼ shares at 31.12.98.	5p shares at 1.1.98	5¼ shares at 1.1.98 (as restated)	5¼ shares at 31.12.98
B D Granger	Nil	Nil	Nil	Nil	Nil	Nil
R D Howe	17,673	16,831	21,714	Nil	Nil	Nil
R A Proudman	7,705	7,338	21,975	1,101	1,049	2,325
M W Rutherford	Nil	Nil	Nil	Nil	Nil	Nil
C J Wacey	Nil	Nil	Nil	Nil	Nil	Nil
J M Wilkinson	523	498	498	Nil	Nil	Nil
G M Wright	Nil	Nil	Nil	Nil	Nil	Nil

The number of shares shown at 1st January 1998 has been restated to reflect the effects of the capital reorganisation which took place in May 1998 when 20 Ordinary Shares of 5¼p were issued in substitution for every 21 Ordinary Shares of 5p each held, and one Non-Cumulative Redeemable Preference Share of 20½p each ('B' share) was issued for each Ordinary Share of 5p held. All the 'B' shares were redeemed for cash during the year and the Ordinary Shares of 5p each were cancelled.

The conditional shares will vest in three years from the date on which they were awarded, under the terms of the Guardian Royal Exchange plc Bonus Co-Investment Plan.

Report of the Directors (Continued)

The capital reorganisation did not alter the number of shares held under option.

	At 1st January 1998 option to subscribe <u>for ordinary shares</u>	options <u>granted</u>	options <u>exercised</u>	At 31st December 1998 option to subscribe for <u>ordinary shares</u>
B D Granger	Nil	Nil	Nil	Nil
R D Howe	32,428	9,465	7,500	34,393
R A Proudman	81,351	12,950	15,000	79,301
M W Rutherford	Nil	Nil	Nil	Nil
C J Wacey	Nil	Nil	Nil	Nil
J M Wilkinson	16,000	Nil	Nil	16,000
G M Wright	Nil	Nil	Nil	Nil

The options outstanding at 31st December 1998 are exercisable at varying dates between 1999 and 2008 at prices between 125p and 286p.

Payment to Suppliers

The policy on payment to suppliers is to apply normal credit terms unless alternative arrangements have been mutually agreed.

Post Balance Sheet Event

On 1st February 1999, the Board of Guardian Royal Exchange plc ("GRE") (the ultimate parent company) recommended that its shareholders accept an offer for their shares in GRE from Sun Life and Provincial Holdings plc, a subsidiary of the AXA Group. The recommended offer document was sent to GRE shareholders on 1st March 1999. On 10th May 1999, the offer was declared unconditional in all respects and therefore the company's ultimate parent company ceased to be Guardian Royal Exchange plc, and became AXA, a company incorporated in France. Negotiations between the shareholders are in progress to formalise an agreement that will result in the exit of one of the two shareholders and the liabilities with respect to this shareholder will be waived as a result of the agreement. The directors of the company have prepared the accounts on a going concern basis as they believe that the negotiations will have a favourable outcome.

Auditors

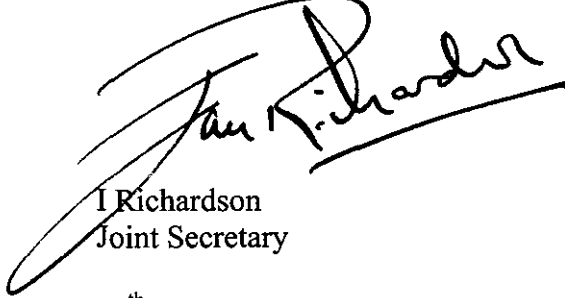
Simmons Gainsford and PricewaterhouseCoopers were appointed joint auditors during the period.

Following the merger of Price Waterhouse and Coopers & Lybrand, from 1st July 1998, Price Waterhouse resigned as joint auditors in favour of the new firm, PricewaterhouseCoopers and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation.

Report to the Directors (Continued)

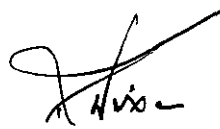
Simmons Gainsford and PricewaterhouseCoopers will continue in office as joint auditors pursuant to Section 386(2) of the Companies Act 1985.

By order of the Board



I Richardson
Joint Secretary

13th December 1999



R Nixon
Joint Secretary

13th December 1999

Directors' responsibilities for the financial statements

The directors are responsible for ensuring that reasonable steps are taken to safeguard the Company's assets and to prevent and detect fraud and other irregularities.

The directors are required to maintain proper accounting records and to prepare financial statements in respect of each accounting period which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period in accordance with the provisions of the Companies Act 1985.

In preparing these financial statements the Directors have ensured that applicable accounting standards have been followed and that suitable accounting policies have been used on a consistent basis. The Directors have also ensured that where necessary the accounts are supported by reasonable and prudent judgements and estimates.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Report of the Auditors

To the Members of Membership Services General Limited

We have audited the financial statements on pages 8 to 18 which have been prepared under the historical cost convention and the accounting policies set out on page 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 5 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

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 also evaluated the overall adequacy of the presentation of information in the financial statements.

Report of the Auditors (Continued)

To the Members of Membership Services General Limited

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of negotiations between the shareholders as described in the directors' report. The financial statements have been prepared on a going concern basis as the directors believe that the negotiations will have a favourable outcome. The financial statements do not include any adjustments that may result from a failure to successfully conclude those negotiations. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31st December 1998 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Simmons Gainsford
Chartered Accountants
Registered Auditor
7 - 10 Chandos Street
London
W1M 9DE

13th December 1999



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

13th December 1999

Profit and Loss Account
for the Year ended 31st December 1998

	Notes	1998 £'000	1997 £'000
Turnover – continuing activities	2	3,006.1	1,302.1
Administrative expenses		(4,214.4)	(3,699.8)
Operating loss		<u>(1,208.3)</u>	<u>(2,397.7)</u>
Interest receivable		102.9	37.9
Interest payable	3	(393.4)	(136.1)
Loss on ordinary activities before taxation	4	<u>(1,498.8)</u>	<u>(2,495.9)</u>
Tax on loss on ordinary activities	5	(23.2)	606.4
Loss on ordinary activities after taxation		<u><u>(1,522.0)</u></u>	<u><u>(1,889.5)</u></u>

There are no recognised gains or losses other than those passing through the profit and loss account.

Balance Sheet

as at 31st December 1998

	Notes	1998 £'000	1997 £'000
Fixed Assets	6	44.3	19.2
Current Assets			
Debtors	7	2,643.0	3,254.4
Cash at bank		787.0	525.1
		<u>3,430.0</u>	<u>3,779.5</u>
Current Liabilities			
Creditors	8	7,414.8	6,172.6
Accruals and deferred income		158.7	203.3
		<u>7,573.5</u>	<u>6,375.9</u>
Net current liabilities		(4,143.5)	(2,596.4)
Total assets less current liabilities		<u>(4,099.2)</u>	<u>(2,577.2)</u>
Capital & Reserves			
Called up share capital	10	0.1	0.1
Profit and loss account	11	(4,099.3)	(2,577.3)
		<u></u>	<u></u>
Shareholders' funds (equity interests)	12	<u>(4,099.2)</u>	<u>(2,577.2)</u>

These financial statements were approved by the Board on

13th December
October 1999.


R D Howe
Director


G M Wright
Director

Cash Flow Statement

for the Year ended 31st December 1998

	Notes	1998 £'000	1997 £'000
Reconciliation of operating loss to net cash outflow from operating activities			
Operating loss		(1,208.3)	(2,397.7)
Depreciation of tangible fixed assets		24.2	25.2
Profit on sale of tangible fixed assets		-	(7.1)
Decrease/(Increase) in debtors		588.2	(1,198.5)
(Decrease)/Increase in creditors		(36.6)	1,632.8
Net cash outflow from operating activities		(632.5)	(1,945.3)
Cash flow statement			
Net cash outflow from operating activities		(632.5)	(1,945.3)
Returns on investments and servicing of finance	17	(290.5)	(98.2)
Capital expenditure	17	(49.3)	1.8
Financing	17	1,234.2	2,565.6
Increase in cash in the year		261.9	523.9
Reconciliation of net cash flow movement			
	18		
Increase in cash		261.9	523.9
Net Cash at 1 January		525.1	1.2
Net Cash at 31 December		787.0	525.1

Notes to the Accounts

1. Accounting Policies

Basis of Accounting

The financial statements have been prepared under the historical cost convention and are in accordance with applicable United Kingdom accounting standards.

The financial statements have been prepared on a going concern basis, as the parent company has undertaken to continue financing the Company for the foreseeable future.

Turnover

Turnover comprises commission income receivable on services provided to clients in the UK.

Depreciation

Depreciation is calculated so as to write off the cost less estimated residual value of tangible fixed assets by equal annual instalments over their estimated useful lives of between 1 and 3 years.

Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with SSAP 24.

Deferred taxation

Provision is made under the liability method for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

2. Turnover

The total turnover of the Company for the Year has been derived from its principal activity wholly undertaken in the UK.

3. Interest payable

	Year ended 31.12.98 £'000	Year ended 31.12.97 £'000
On loans from parent company	393.4	136.1

Notes to the Accounts (continued)

4. Loss on ordinary activities before taxation

	Year ended 31.12.98 £'000	Year ended 31.12.97 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	24.2	25.2
Auditors' remuneration	35.0	35.0
	<hr/>	<hr/>

5. Tax on loss on ordinary activities

	Year ended 31.12.98 £'000	Year ended 31.12.97 £'000
Corporation tax credit at 31.5%	185.4	738.2
Prior Year	(208.6)	(131.8)
	<hr/>	<hr/>
	(23.2)	606.4

The corporation tax credit has been relieved to the consortium companies.

6. Tangible Fixed Assets

	Fixtures & Fittings	Furniture	Office Equipment	Computer Hardware	Total
Cost					
At 1 Jan 98	5.2	16.7	2.9	70.2	95.0
Additions	-	-	12.0	37.3	49.3
Disposals	-	-	-	-	-
At 31 Dec 98	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	5.2	16.7	14.9	107.5	144.3
Depreciation					
At 1 Jan 98	4.5	14.6	2.5	54.2	75.8
Charge for Year	0.6	1.8	3.5	18.3	24.2
Disposals	-	-	-	-	-
At 31 Dec 98	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	5.1	16.4	6.0	72.5	100.0
Net Book Value					
At 1 Jan 1998	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	0.7	2.1	0.4	16.0	19.2
At 31 Dec 1998	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	0.1	0.3	8.9	35.0	44.3

Notes to the Accounts (continued)

7. Debtors	As at 31.12.98 £'000	As at 31.12.97 £'000
Trade debtors	1,449.1	1,350.9
Sundry debtors and prepayments	98.5	64.3
Amounts owed by group undertaking	732.4	1,169.9
Amounts owed by related company	363.0	669.3
	<hr/>	<hr/>
	2,643.0	3,254.4
	<hr/>	<hr/>

8. Creditors	As at 31.12.98 £'000	As at 31.12.97 £'000
Due to underwriters	1,580.6	1,050.0
Sundry creditors and payments on account	31.2	327.5
Amounts owed to group undertakings	5,529.8	4,121.4
Amounts owed to related company	273.2	673.7
	<hr/>	<hr/>
	7,414.8	6,172.6
	<hr/>	<hr/>

9. Capital Expenditure Commitments

As at 31st December 1998 there had been no capital expenditure authorised and none provided for in the accounts.

Notes to the Accounts (continued)

10. Called up Share Capital

	Authorised £	Paid up £
Authorised:		
102,000 ordinary "A" shares of £1 each	102,000	
98,000 ordinary "B" shares of £1 each	98,000	
Issued:		
51 ordinary "A" shares of £1 each		51
49 ordinary "B" shares of £1 each		49
	<hr/> 200,000 <hr/>	<hr/> 100 <hr/>

The "A" and "B" shares rank pari passu in all respects as regards entitlement to a dividend, entitlement to a share in the surplus assets of the Company on a liquidation of the Company and in voting rights.

11. Profit and Loss Account

	As at 31.12.98 £'000	As at 31.12.97 £'000
Retained loss 1 January 1998	(2,577.3)	(687.8)
Retained loss for Year	(1,522.0)	(1,889.5)
Retained loss at 31 December 1998	<hr/> (4,099.3) <hr/>	<hr/> (2,577.3) <hr/>

Notes to the Accounts (continued)

12. Reconciliation of Movements in Shareholders' Funds

	As at 31.12.98 £'000	As at 31.12.97 £'000
Opening shareholders' funds	(2,577.2)	(687.7)
Loss for the year	(1,522.0)	(1,889.5)
	<hr/>	<hr/>
Closing shareholders' funds	(4,099.2)	(2,577.2)
	<hr/>	<hr/>

13. Directors' Emoluments

	As at 31.12.98 £'000	As at 31.12.97 £'000
Emoluments	<hr/> -	<hr/> 60

Notes to the Accounts (continued)

14. Employees	Year ended 31.12.98 £'000	Year ended 31.12.97 £'000
Employment costs (including directors)		
Wages and salaries	1,816.6	1,049.8
Social security costs	108.9	80.6
Other Pension costs	21.3	-
	<hr/>	<hr/>
	1,946.8	1,130.4
	<hr/>	<hr/>

The average weekly number of employees (including directors) during the Year was 72. (1998 : 66)

15. Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered personal pension funds. The pension cost charge represents contributions payable by the company to the funds and amounted to £21.3K (1997 – Nil)

16. Related Party Transactions

During the Year the Company had the following arms' length transactions with its parent company, Guardian Insurance Limited ("GI"), and its related company, Membership Services Direct Limited ("MSD"):

(i)	Fixed assets purchased from MSD	£	26,143
(ii)	Expenses incurred by MSD recharged to the Company	£	3,393,978
(iii)	Expenses recharged by GI to the Company	£	100,658
(iv)	Interest charged on loan from GI	£	393,400
(v)	Gross written premiums to GI	£	4,601,307

The balances due to / from related parties are disclosed in notes 7 and 8 to the accounts.

Notes to the Accounts (continued)

17. Analysis of Cash Flows for Headings Netted in the Cash Flow Statement

	Year ended 31.12.98 £'000	Year ended 31.12.97 £'000
Returns on investments and servicing of finance		
Interest received	102.9	37.9
Interest paid	(393.4)	(136.1)
	<u>(290.5)</u>	<u>(98.2)</u>

Capital Expenditure

Payments to acquire tangible fixed assets	(49.3)	(9.0)
Receipts from sales of tangible fixed assets		10.8
	<u>(49.3)</u>	<u>1.8</u>

Financing

Loan from parent company	1,234.2	2,565.6
	<u>1,234.2</u>	<u>2,565.6</u>

18. Analysis of Changes in Net Cash

	As at 1.1.98 £'000	Cash Flows £'000	As at 31.12.98 £'000
Cash at bank and in hand	525.1	261.9	787.0
	<u>525.1</u>	<u>261.9</u>	<u>787.0</u>

Notes to the Accounts (continued)

18. Ultimate Parent

The company's ultimate parent undertaking is AXA which is incorporated in France. Group financial statements for AXA are obtainable from 9 Place Vendome, 75001, Paris.