REPORT OF THE DIRECTORS AND

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2013

FOR

EXPECTRUM LIMITED

EXPECTRUM LIMITED

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EXPECTRUM LIMITED

COMPANY INFORMATION
FOR THE YEAR ENDED 31 AUGUST 2013

DIRECTORS:	C Giles	
	R Leeming	
	P Matson	(resigned 14 November 2013)
	MLR Consulting LLP	(resigned 14 November 2013)
	B McManus	(resigned 14 November 2013)
	M Offord	(resigned 14 November 2013)
	F Van Den Bosch	
	Charterhouse Corporate Directors Limited	(appointed 14 November 2013)

REGISTERED OFFICE:

7th Floor
Warwick Court
Paternoster Square
London
EC4M 7DX

REGISTERED NUMBER: 06475825 (England and Wales)

INDEPENDENT AUDITORS:

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

SOLICITORS:

Dickson Minto
Broadgate Tower
20 Primrose Street
London
EC2A 2EW

EXPECTRUM LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 AUGUST 2013

The dırectors present theır report and the audıted consolıdated financıal statements for the year ended 31 August 2013

PRINCIPAL ACTIVITIES
The prıncıpal actıvıty of the group, beıng Expectrum Lımıted and subsıdıary companıes, durıng the year was that of ınsurance brokıng The prıncıpal actıvıty of Expectrum Lımıted ("the company") was to act as a holdıng company

REVIEW OF BUSINESS
Durıng the year, the group contınued ıts acquısıtıon actıvıty wıth the purchase of books of busıness from Aon UK Lımıted and Marsh (IOM) Lımıted

The dırectors are confident that these acquısıtıons wıll add to the future turnover and profitabılıty of the group

The tradıng results for the year and the group's financıal posıtıon at the end of the year are shown ın the profit and loss account and balance sheet on pages 7 and 8 respectıvely

In the vıew of the dırectors the maın key performance ındıcators for the busıness are the level of turnover, and earnıngs before ınterest, tax, deprecıatıon, amortısatıon and exceptıonal and ıntegratıon costs ("Adjusted EBITDA")

Turnover for the year ended 31 August 2013 was £90,533,000 (2012 £88,657,000)

Adjusted EBITDA for the year amounted to £25,130,000 (2012 £24,682,000)

Operatıng loss for the year amounted to £3,305,000 (2012 £4,560,000)

Included wıthın operatıng loss ıs the cost of ıntegratıng acquısıtıons wıthın the group of £2,150,000 (2012 £3,007,000) Included ın the operatıng loss ın the prevıous year were the costs of restructurıng of the equıty and debt financıng of the group of £718,000, aborted acquısıtıons of £186,000 and projects relatıng to the restructurıng of the busıness and the ımplementatıon and development of new processes of £765,000 The dırectors are of the vıew that these ıntegratıon costs are not exceptıonal however are vıewed as separate from the normal operatıng costs of the busıness

There was a provısıon for loss on sale of operatıons of £72,520,000 (2012 £nıl) charged to the profit and loss account durıng the year Thıs charge ıs shown as an exceptıonal ıtem and further detaıls are gıven ın note 7 The net group ınterest and charges cost for the year amounted to £36,751,000 (2012 £34,928,000) whıch resulted ın a loss after tax of £107,906,000 (2012 £39,507,000)

The group ıssued £15,339,778 of eurobonds durıng the year Further detaıls are provıded ın note 18

DIVIDENDS
No dıvıdends wıll be dıstrıbuted for the year ended 31 August 2013 (2012 £nıl)

FUTURE DEVELOPMENTS
On 14 November 2013 Expectrum Lımıted sold ıts entıre shareholdıng ın Rıo 587 Lımıted (formerly DMWSL 587 Lımıted) to Arthur J Gallagher & Co , a company ıncorporated ın USA and regıstered ın Delaware Thus, as of 14 November 2013, Arthur J Gallagher & Co became the ultımate parent company and ultımate controllıng party of the Rıo 587 Lımıted (formerly DMWSL 587 Lımıted) group The group wıll contınue tot trade as a goıng concern, albeıt under new control, wıth Rıo 587 Lımıted stıll actıng as the holdıng company of the group

EVENTS SINCE THE END OF THE YEAR
Arthur J Gallagher & Co became the ultımate parent undertakıng of the group on 14 November 2013

Further ınformatıon relatıng to events sınce the end of the year ıs gıven ın the notes to the financıal statements

DIRECTORS
The dırectors shown below have held office durıng the whole of the perıod from 1 September 2012 to the date of thıs report

C Gıles
R Leemıng
F Van Den Bosch

DIRECTORS - continued

Other changes in directors holding office are as follows

Charterhouse Corporate Directors Limited was appointed as a director after 31 August 2013 but prior to the date of this report

P Matson , B McManus, MLR Consulting LLP and M Offord ceased to be directors after 31 August 2013 but prior to the date of this report

GROUP'S POLICY ON PAYMENT OF CREDITORS
The group's payment policy is to comply with the terms of payment agreed with suppliers Where no terms have been negotiated, the group makes every effort to adhere to suppliers' standard terms The number of creditor days in the year to 31 August 2013 relating to non insurance creditors was 18 days (2012 23 days)

POLITICAL AND CHARITABLE CONTRIBUTIONS
No charitable or political donations were made during the year (2012 £nil)

PRINCIPAL RISKS AND UNCERTAINTIES
Governance
The management of the business and the execution of the group's strategy are subject to a number of risks The group has implemented a three line of defence corporate governance model to mitigate and manage risks of the business All risk exposures are monitored by the Risk Committee and the Board of Directors regularly The Risk Committee is chaired by a Non Executive Director and comprises members of both Executive and Senior Management

First Line: The mitigation of risk is a key consideration within the delivery of our strategy by our Executive Management team Three Non Executive Directors are members of the boards of group companies to complement the existing management structure and further enhance the risk management of the group

Second line: Risk and Compliance Department We have formal risk strategy appropriate to our business model and a revised risk register has been implemented across the business, which has a formal review cycle

Our risk management reporting framework is reviewed by the Risk Committee and is monitored through development of our Key Risk Indicators (KRIs), and reporting of risk management information, which is tracked and reported by the Risk and Compliance Department

The compliance monitoring team also supports this work undertaking risk based branch and thematic audits, reviewed by both the Risk and Compliance Department and the first line executive management

Third line: Internal Audit Department, which follows the Internal Audit Framework, as identified by the Audit Committee, and highlights areas where control weaknesses exist in order that these can be addressed Internal audit includes regular review of areas where risk exists The Internal Audit Department reports to the Audit Committee which is chaired by a Non Executive Director

KEY RISKS
The key risks which are considered to have a material impact on the business are detailed below

Market Risk
The group is affected by the insurance market cycle The current assessment is of relatively soft market conditions with the group tackling this risk by both new business initiatives and ongoing supplier negotiations A further market risk is the strength of the supply base The group ensures the supply base is appropriate by regular monitoring and assessment of insurer credit ratings through the Securities and Markets Authorisation Committee

PRINCIPAL RISKS AND UNCERTAINTIES - CONTINUED
KEY RISKS – continued

Regulatory Risk
The regulatory environment applicable to the group's main trading subsidiaries is set by the Financial Conduct Authority ("FCA") A breach of FCA regulations by any of the regulated group companies could lead to financial penalties and could restrict the group's ability to operate

To minimise this risk, the group operates a three lines of defence model as described above, as well as a dedicated Compliance Policy department who, alongside the business, develop and implement controls to mitigate risk of FCA regulatory breaches

Credit Risk
Credit risk is minimised by the group ensuring that it receives cash in respect of premiums from clients before paying these premiums to insurers

Liquidity Risk
The group's main financing liabilities at the balance sheet date were term loans which accrued interest at variable rates and loan notes and eurobonds which accrued interest at a fixed rate The directors manage and monitor the financing of the companies on a group basis to mitigate the liquidity risks To manage the risk of interest rate movements relating to the group's variable rate borrowings, the group has entered into interest rate swap and interest rate cap arrangements when considered appropriate Further details are provided in notes 19 and 21 to the financial statements

A breach of the group's loan covenants would have led to funding being withdrawn The risk was mitigated by closely monitoring forecast and actual performance against these covenants

As of 14 November 2013 the term loans, loan notes and eurobonds liabilities were settled

Staff Recruitment and Retention Risk
The group relies on its key employees to maintain the delivery of high quality service to its customers The loss of key employees is a risk to the group The group aims to attract, retain and motivate employees by providing competitive remuneration packages and ongoing training and development

GOING CONCERN
The group's business activities, together with the factors likely to affect the future development, performance and position are set out in the business review on page 2 This includes commentary on regulatory and market risk management objectives and exposure to credit risk and liquidity risk As at 31 August 2013, the group was in a net liability position

On 14 November 2013, the group's operations were sold to Arthur J Gallagher & Co Taking account of reasonably possible changes in trading performance, the directors believe that the group has adequate resources to continue in operational existence for at least 12 months from the signing of the financial statements under the new organisational structure

Expectrum Limited ceased to be the ultimate parent company of the group in November 2013 The financial statements of Expectrum Limited have been prepared on a break up basis as the indirect trading operations of the company have been transferred to Arthur J Gallagher & Co The directors do not expect the company to trade in the foreseeable future

DIRECTORS' INDEMNITY PROVISIONS
The directors have benefited from qualifying third party indemnity provision in place during the financial year and to the date of this report

EMPLOYEE INVOLVEMENT
It is the group policy that there should be effective communication with employees at all levels on matters which affect their current or future prospects Employees are provided with information on matters of concern to them via weekly newsletters and are in regular consultations with management on matters that affect their interests

DISABLED EMPLOYEES
The policy of the group with regard to disabled persons is to give full and fair consideration to all applicants for employment and to all employees in relation to promotion, career development and training Wherever possible, employees who become disabled during their employment are offered suitable alternative employment

EXPECTRUM LIMITED

REPORT OF THE DIRECTORS - continued
FOR THE YEAR ENDED 31 AUGUST 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The directors are responsible for preparing the Report of the directors and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information

ON BEHALF OF THE BOARD:

Paul N Burrow
Director

Charterhouse Corporate Directors Limited - Director

Date 4 April 2014

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF EXPECTRUM LIMITED

We have audited the group and parent company financial statements of Expectrum Limited for the year ended 31 August 2013 which comprise the Consolidated Profit and Loss Account, the Group and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 5 of the Report of the Directors, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2013 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ
Date 10 April 2014

EXPECTRUM LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 AUGUST 2013

	Notes	2013 £'000	2012 £'000
TURNOVER	2		
Discontinued operations		90,533	88,606
Total turnover		90,533	88,657
Administrative expenses		(93,838)	(93,217)
OPERATING LOSS	5		
Discontinued operations		(3,305)	(4,560)
Total operating loss		(3,305)	(4,560)
Operating loss consists of			
Earnings before interest, tax, depreciation, amortisation and integration costs ("Adjusted EBITDA")		*25,130*	*24,682*
Depreciation of fixed assets		*(1,355)*	*(1,033)*
Goodwill amortisation		*(24,930)*	*(23,533)*
Integration costs		*(2,150)*	*(3,007)*
Exceptional costs		*-*	*(1,669)*
Provision for loss on sale of operations	7	(72,520)	-
		(75,825)	(4,560)
Interest receivable and similar income	8	312	196
		(75,513)	(4,364)
Interest payable and similar charges	9	(36,751)	(35,124)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(112,264)	(39,488)
Tax on loss on ordinary activities	10	4,358	(19)
LOSS FOR THE FINANCIAL YEAR FOR THE GROUP		(107,906)	(39,507)

DISCONTINUED OPERATIONS
On 14 November 2013, the group's operations were sold to Arthur J Gallagher & Co

TOTAL RECOGNISED GAINS AND LOSSES
The group has no recognised gains or losses other than the losses for the current year or previous year

NOTE OF HISTORICAL COST PROFITS AND LOSSES
There is no material difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents

The notes form part of these financial statements

EXPECTRUM LIMITED (REGISTERED NUMBER: 06475825)

CONSOLIDATED BALANCE SHEET AS AT 31 AUGUST 2013

	Notes	£'000	2013 £'000	£'000	2012 £'000
FIXED ASSETS					
Intangible assets	12		104,773		197,495
Tangible assets	13		3,965		3,966
Investments	14		-		-
			108,738		201,461
CURRENT ASSETS					
Debtors amounts falling due within one year	15	42,411		30,762	
Debtors amounts falling due after more than one year	15	50		100	
Cash at bank	16	44,615		46,172	
		87,076		77,034	
CREDITORS					
Amounts falling due within one year	17	(76,533)		(70,291)	
NET CURRENT ASSETS			10,543		6,743
TOTAL ASSETS LESS CURRENT LIABILITIES			119,281		208,204
CREDITORS					
Amounts falling due after more than one year	18		(374,188)		(355,205)
NET LIABILITIES			(254,907)		(147,001)
CAPITAL AND RESERVES					
Called up share capital	22		558		558
Profit and loss account	23		(255,465)		(147,559)
TOTAL SHAREHOLDERS' DEFICIT	28		(254,907)		(147,001)

The financial statements on pages 7 to 31 were approved by the Board of Directors on 4th April 2014 and were signed on its behalf by

Paul N Burrow
Director

Charterhouse Corporate Directors Limited - Director

The notes form part of these financial statements

EXPECTRUM LIMITED (REGISTERED NUMBER: 06475825)

COMPANY BALANCE SHEET AS AT 31 AUGUST 2013

	Notes	£'000	2013 £'000	£'000	2012 £'000
FIXED ASSETS					
Intangible assets	12		-		-
Tangible assets	13		-		-
Investments	14		-		41
			-		41
CURRENT ASSETS					
Debtors amounts falling due within one year	15	419		124,493	
Cash at bank	16	11		11	
		430		124,504	
CREDITORS					
Amounts falling due within one year	17	-		123,987	
NET CURRENT ASSETS			430		517
TOTAL ASSETS LESS CURRENT LIABILITIES			430		558
CAPITAL AND RESERVES					
Called up share capital	22		558		558
Profit and loss account			(128)		-
TOTAL SHAREHOLDERS' FUNDS	28		430		558

The financial statements of the company have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies

The financial statements on pages 7 to 31 were approved by the Board of Directors on 4th April 2014 and were signed on its behalf by

Paul N Burrow
Director

Charterhouse Corporate Directors Limited - Director

EXPECTRUM LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	(i)	19,281	17,260
Returns on investments and servicing of finance			
Interest received		312	196
Interest paid		(6,280)	(7,677)
Net cash outflow from returns on investments and servicing of finance		(5,968)	(7,481)
Taxation		68	(121)
Capital expenditure			
Payments to acquire tangible fixed assets		(1,742)	(990)
Net cash outflow from capital expenditure		(1,742)	(990)
Acquisitions and disposals			
Purchase of subsidiary undertakings and books of business (including related expenses and deferred considerations)		(3,466)	(6,704)
Net cash outflow from acquisitions and disposals		(3,466)	(6,704)
Net cash inflow before financing		8,173	1,964
Financing			
Terms loans received		2,906	1,971
Term loan repayments		(12,633)	(11,150)
Other loan repayments		-	(2,400)
Loan notes issued		-	4,200
Hire purchase repayments		(3)	(6)
Net cash outflow from financing		(9,730)	(7,385)
Decrease in cash	(ii)	(1,557)	(5,421)

The notes form part of these financial statements

EXPECTRUM LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2013

(i) RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2013 £'000	2012 £'000
Operating loss	(3,305)	(4,560)
Amortisation of goodwill	24,930	23,533
Depreciation of tangible fixed assets	1,355	1,033
(Increase)/decrease in debtors	(7,301)	4,791
Increase/(decrease) in creditors	3,602	(7,537)
Net cash inflow from operating activities	19,281	17,260

(ii) RECONCILIATION OF NET CASH OUTFLOW TO MOVEMENT IN DEBT

	2013 £'000	2012 £'000
Decrease in cash in the year	(1,557)	(5,421)
Bank overdrafts repaid	-	503
Terms loans received	(2,906)	(1,971)
Term loan repayments	12,633	11,150
Loan notes issued	(15,340)	(9,683)
Other loan repayments	-	2,400
Hire purchase repayments	3	6
Change in net debt resulting from cash flows	(7,167)	(3,016)
Amortisation of term loan arrangement fees	(573)	(703)
Movement in net debt in the year	(7,740)	(3,719)
Net debt at start of year	(245,461)	(241,742)
Net debt at year end	(253,201)	(245,461)

Term loan arrangement fees paid in March 2008 amounted to £9,425,000 of which £886,000 was unamortised as at 31 August 2013 (2012 £1,460,000)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - continued
FOR THE YEAR ENDED 31 AUGUST 2013

(iii) ANALYSIS OF CHANGES IN NET DEBT

	At 31 August 2012 £'000	Cash flows £'000	Other non-cash changes £'000	At 31 August 2013 £'000
Net cash:				
Insurance bank accounts	30,369	(1,302)	-	29,067
Other cash in hand and at bank	15,803	(255)	-	15,548
	46,172	(1,557)	-	44,615
Debt:				
Term loans due within 1 year	(8,599)	8,599	(10,306)	(10,306)
Term loans due after more than 1 year	(120,417)	1,128	9,733	(109,556)
Loan notes due after more than 1 year	(162,599)	-	(15,340)	(177,939)
Hire purchase liabilities	(18)	3	-	(15)
	(291,633)	9,730	(15,913)	(297,816)
Net debt	(245,461)	8,173	(15,913)	(253,201)

The non-cash changes in net debt of £15,913,000 relate to the amortisation of term loan arrangement fees of £573,000 and the issue of loan notes of £15,339,778 in satisfaction of accrued loan note interest

EXPECTRUM LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2013

1 ACCOUNTING POLICIES

Basis of preparation
The financial statements of the group are prepared on a going concern basis as the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future The directors consider the principal risks, uncertainties and their response to these as disclosed in the Report of the Directors

The financial statements of the company are prepared on a break up basis following a change in the ultimate parent company of the group on 14 November 2013 The indirect trading operations of the company have been transferred to Arthur J Gallagher & Co and the directors do not expect the company to trade in the foreseeable future

Basis of accounting
The financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 2006 and applicable United Kingdom Generally Accepted Accounting Practice and accounting policies which have been consistently applied

Consolidation
The group financial statements consolidate the financial statements of the company and its subsidiary undertakings made up to 31 August 2013, using the acquisition method of accounting No profit and loss account is presented for the parent company as permitted by section 408 of the Companies Act 2006 Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group, and the elimination of profits/losses on intra group transactions

Cash flow statement
The company has taken advantage of the exemption within FRS 1 (revised 1996) "Cash Flow Statements" from preparing a cash flow statement on the grounds that the consolidated cash flow statement included in the financial statements of the group includes the cash flows of the company

Turnover
Turnover represents brokerage and fees earned for placing and servicing risks on behalf of clients and income from business placed with financing companies The group recognises this income when earned Brokerage is recognised at policy inception date with a proportion of income deferred over the period of the underlying contracts to recognise the ongoing contractual obligations of maintaining and servicing the contracts over that period

Turnover attributable to companies and books of business which were acquired by the group during the year ended 31 August 2013 is shown on the face of the profit and loss account as turnover from acquisitions

Accrued income
Income is accrued when it has been earned in the year but will be received in a future accounting period, and when the amount earned can be estimated with reasonable certainty

Deferred income
Income is deferred when it has been received in the year but will be earned in a future accounting period

Goodwill
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration and acquisition expenses originally paid over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which the directors have assessed to be 12 years Provision is made for any impairment

Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account See note 7 for details of the impairment of goodwill in the year to 31 August 2013

continued

1 ACCOUNTING POLICIES - continued

Tangible fixed assets
Tangible fixed assets are recorded at historical purchase cost less accumulated depreciation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

Depreciation
Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Improvements to property	- 3 years straight line
IT projects	- 5 years straight line
Fixtures and fittings	- 3 years straight line
Motor vehicles	- 3 years straight line
Computer equipment	- 5 years straight line

Investments in subsidiaries
Investments in subsidiary companies are recorded at cost less any provision for impairment Impairment reviews are performed by the directors where there has been an indication of potential impairment In the accounting year ended 31 August 2008, the company took advantage of the Companies Act 2006 merger relief and recorded shares issued as part of the arrangement to acquire DMWSL 586 Limited at their nominal value in the company balance sheet

Current taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

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 the balance sheet date that will result in an obligation to pay more, or a right to pay less tax, in the future Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Pension costs
The group operates several different defined contribution pension schemes for employees The assets of the schemes are held separately from those of the group The annual contributions payable are charged to the profit and loss account

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 and accordingly such investment income is included in operating profits Such cash is held in a client account separate from the general funds of the group The company has applied FRS 5 "Reporting the Substance of Transactions" and offsets debtors and creditors from insurance transactions only when it is legally enforceable

continued

1 **ACCOUNTING POLICIES - continued**

Bank borrowings
Interest bearing bank loans are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the borrowings to the extent that they are not settled in the period in which they arise

Interest rate cap
The group had an interest rate cap arrangement in order to manage the interest rate risk associated with some of the group's variable rate borrowings The arrangement ended on 31 May 2013

Deferred considerations
The total consideration payable by the group when acquiring businesses often includes a deferred element which is based on the future trading performance of the acquired business The group provides for the deferred consideration where there is a reasonable expectation that the acquired business will meet the targets specified in the acquisition agreement

2 **TURNOVER**

The turnover and loss before tax are attributable to the one principal activity of the group The group derived its entire turnover from operations in the United Kingdom, Cayman Islands, Channel Islands and Isle of Man

The split of turnover by country was as follows

	2013 £'000	2012 £'000
United Kingdom	76,407	76,792
Cayman Islands	186	-
Channel Islands	12,906	11,116
Isle of Man	1,034	749
	90,533	88,657

3 **STAFF COSTS**

	2013 £'000	2012 £'000
Wages and salaries	41,664	40,530
Social security costs	4,507	3,896
Other pension costs	1,192	926
	47,363	45,352

The average monthly number of employees during the year was as follows

	2013 number	2012 number
Administrative staff	1,135	1,181
Executive directors	3	2
	1,138	1,183

continued

4 DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were

	2013 £'000	2012 £'000
Aggregate emoluments paid	957	665
Pension contributions to money purchase pension schemes	48	26
	1,005	691

The directors of the company are paid by a subsidiary company, not by Expectrum Limited

The emoluments of the highest paid director in the year amounted to £387,200 (2012 £320,000) Contributions to money purchase pension schemes on behalf of the highest paid director amounted to £30,000 (2012 £15,000)

The number of directors who are accruing benefits under group pension schemes was as follows

	2013 number	2012 number
Money purchase schemes	2	2

5 OPERATING LOSS

The operating loss is stated after charging/(crediting)

	2013 £'000	2012 £'000
Depreciation	1,355	1,033
Goodwill amortisation	24,930	23,533
Foreign exchange differences	(2)	-
Operating lease costs - land and buildings	2,721	3,117
Operating lease costs - plant and machinery	3	3

Included within fixed asset depreciation is £10,000 (2012 £10,000) relating to depreciation on assets under hire purchase agreements

continued

6 AUDITORS' REMUNERATION

Amounts paid to the auditors for statutory audit and other services were as follows

	2013 £'000	2012 £'000
Fees payable to the group's auditors for the audit of the group's accounts	2	5
Fees payable to the group's auditors for the audit of the company's subsidiaries	136	138
Total audit fees	138	143
Other services pursuant to legislation	21	13
Other services relating to taxation of the company	1	2
Other services relating to the taxation of the company's subsidiaries	90	70
Other services	834	508
Total non-audit fees	946	593
Total fees	1,084	736

7. PROVISION FOR LOSS ON SALE OF OPERATIONS

	2013 £'000	2012 £'000
Provision for loss on sale of operations	72,520	-

Following the sale of Rio 587 Limited (formerly DMWSL 587 Limited) to Arthur J Gallagher & Co on 14 November 2013, the directors believe that the goodwill of the group at the balance sheet date is impaired and provision has been made to recognise the loss on sale of operations The provision for loss on sale of operations is a non-deductible expense for current tax purposes

8 INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £'000	2012 £'000
Bank interest received	312	196

continued

9 INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £'000	2012 £'000
Term loan interest	5,803	6,976
Term loan commitment fees	122	198
Other finance charges	207	425
Amortisation of loan arrangement fee	573	703
Eurobond/loan note interest	30,046	26,822
	36,751	35,124

10 TAX ON LOSS ON ORDINARY ACTIVITIES

Analysis of the tax charge
The tax (credit)/charge on the loss on ordinary activities for the year was as follows

	2013 £'000	2012 £'000
Current tax		
Overseas corporation tax on profits of the period	161	
Adjustments in respect of prior years	(221)	19
Total current tax	(60)	19
Deferred tax		
Origination and reversal of timing differences	(4,418)	-
Effect of changes in tax rates or laws	120	
Total deferred tax	(4,298)	-
Tax on loss on ordinary activities	(4,358)	19

Factors affecting the tax charge
The effective tax rate for the year is higher than the standard rate of corporation tax in the UK The difference is explained below

	2013 £'000	2012 £'000
Loss on ordinary activities before tax	(112,264)	(39,488)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23 580% (2012 - 25 160%)	(26,472)	(9,935)
Effects of		
Expenses not deductible for tax purposes	28,492	10,970
Income not taxable for tax purposes	(3,070)	(2,694)
Accelerated capital allowances	(46)	172
Utilisation of tax losses	697	200
Adjustments to tax charge in respect of previous periods	(232)	19
Group relief claimed	(19)	-
Other timing differences	590	1,287
Current tax charge	(60)	19

continued

10 TAX ON LOSS ON ORDINARY ACTIVITIES - continued

Factors that may affect future tax charges

There is an unrecognised deferred tax asset at the end of the year of £4,881,436 (2012 £7,080,413) This asset is not recognised on the balance sheet due to the availability of losses to shelter the group from corporation tax for the following period

During the year, changes in the UK corporation tax rate were substantively enacted as part of the Finance Bill 2013 on 2 July 2013 These include reductions in the main rate of corporation tax from 23% to 21% from 1 April 2015 The relevant deferred tax balances have been re-measured accordingly

11 LOSS OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements The parent company's result for the financial year was a loss of £128,000 (2012 £nil)

12 INTANGIBLE ASSETS

Group

	Goodwill £'000
COST	
At 1 September 2012	285,368
Additions	741
At 31 August 2013	286,109
AMORTISATION	
At 1 September 2012	87,873
Amortisation for year	24,930
Impairments	68,533
At 31 August 2013	181,336
NET BOOK VALUE	
At 31 August 2013	104,773
At 31 August 2012	197,495

Additions to goodwill relate to the acquisition of books of business from Aon UK Limited, Marsh (IOM) Limited and Jelf Insurance Brokers Limited

The impairment of goodwill in the year relates to the sale of Rio 587 Limited (formerly DMWSL 587 Limited), an intermediate holding company of the group, to Arthur J Gallagher & Co on 14 November 2013 See note 27 for further details

continued

13 **TANGIBLE ASSETS**

Group

Group	Improvements to property £'000	IT projects £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Total £'000
Cost						
At 1 September 2012	706	3,968	5,105	189	1,808	11,776
Additions	59	855	260	-	222	1,396
Disposals	-	-	(884)	-	(1,013)	(1,897)
At 31 August 2013	765	4,823	4,481	189	1,017	11,275
Accumulated depreciation						
At 1 September 2012	508	1,101	4,717	174	1,310	7,810
Charge for the year	88	843	187	10	227	1,355
Disposals	-	-	(881)	-	(974)	(1,855)
At 31 August 2013	596	1,944	4,023	184	563	7,310
Net Book Value						
At 31 August 2013	169	2,879	458	5	454	3,965
At 31 August 2012	198	2,867	388	15	498	3,966

Hire Purchase
Included within the net book value of tangible fixed assets is £5,000 (2012 £15,000) relating to assets held under hire purchase agreements The depreciation charged to the financial statements in the year in respect of such assets amounted to £10,000 (2012 £10,000)

continued

14 INVESTMENTS

Company

	Shares in group undertakings £'000
COST	
At 1 September 2012 and 31 August 2013	41
PROVISIONS FOR IMPAIRMENT	
At 1 September 2012	-
Provision charged in the year	41
At 31 August 2013	41
NET BOOK VALUE	
At 31 August 2013	-
At 31 August 2012	41

The directors consider that the investment value is impaired and have provided for the full amount in the profit and loss account of the company

At the 31 August 2013 the company held the entire share issue of DMWSL 586 Limited The remaining investments are held by fellow subsidiary companies

Name of Company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
DMWSL 586 Limited	England	Ordinary shares	100%	Holding company
Rio 587 Limited (formerly DMWSL 587 Limited)	England	Ordinary shares	100%	Holding company
Rio 588 Limited (formerly DMWSL 588 Limited)	England	Ordinary shares	100%	Holding company
Quillco 226 Limited	Scotland	Ordinary shares	100%	Holding company
Quillco 227 Limited	Scotland	Ordinary shares	100%	Holding company
INK Underwriting Agencies Limited	England	Ordinary shares	100%	Insurance brokers
Westinsure Group Limited	England	Ordinary shares	100%	Insurance broker network
Insurance Watchdog Limited	England	Ordinary shares	100%	Non trading
Westinsure Online Limited	England	Ordinary shares	100%	Non trading
Dallas Kirkland (Professions) Limited	England	Ordinary shares	100%	Non trading
Giles Holdings Limited	Scotland	Ordinary shares	100%	Holding company
Giles Project Risks Limited	Scotland	Ordinary shares	100%	Non trading
R A Rossborough Limited	Jersey	Ordinary shares	100%	Holding company

continued

14 INVESTMENTS - continued

Name of Company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
R A Rossborough (Insurance Brokers) Limited	Jersey	Ordinary shares	100%	Insurance brokers
Rossborough Insurance Services Limited	Jersey	Ordinary shares	100%	Administrative support
Rossborough Insurance Brokers Limited	England	Ordinary shares	100%	Non trading
Rossborough Insurance (IOM) Limited	Isle of Man	Ordinary shares	100%	Insurance brokers
Rossborough Healthcare International Limited	Guernsey	Ordinary shares	100%	Insurance brokers
R A Rossborough (Guernsey) Limited	Guernsey	Ordinary shares	100%	Insurance brokers
Giles Insurance Brokers Limited	Scotland	Ordinary shares	100%	Insurance brokers
Giles Plus Services Limited	Scotland	Ordinary shares	100%	Insurance advisory services
Hedges and Rose Insurance Services Limited	England	Ordinary shares	100%	Non trading
Crosbie and Jack Insurance Services Limited	Scotland	Ordinary shares	100%	Non trading
Robinson Leslie Limited	England	Ordinary shares	100%	Non trading
Sutton Barnard Limited	England	Ordinary shares	100%	Non trading
Carrick Neill & Co Limited	Scotland	Ordinary shares	100%	Non trading
Archibald Reid (Insurance Brokers) Limited	England	Ordinary shares	100%	Non trading
Dickson Insurance Brokers Limited	England	Ordinary shares	100%	Non trading
LRG Insurance Services Limited	England	Ordinary shares	100%	Non trading
JHIB Holdings Limited	England	Ordinary shares	100%	Non trading
James Hampden Insurance Brokers Limited	England	Ordinary shares	100%	Non trading
CBG Group Limited	England	Ordinary shares	100%	Holding company
CBG Insurance Brokers Limited	England	Ordinary shares	100%	Non trading
CBG London Limited	England	Ordinary shares	100%	Non trading
Exius Limited	England	Ordinary shares	100%	Non trading
CBG Sports Limited	England	Ordinary shares	100%	Non trading
CBG Financial Management Limited	England	Ordinary shares	100%	Non trading
CBG Spencer Lavery Healthcare Limited	England	Ordinary shares	100%	Non trading
CBG Corporate Director Limited	England	Ordinary shares	100%	Non trading
Flysure Limited	England	Ordinary shares	100%	Non trading
Rockbridge Healthcare Limited	England	Ordinary shares	100%	Non trading
Marcus Hearn & co (Travel & Aviation) Ltd	England	Ordinary shares	100%	Non trading

As a result of a corporate simplification exercise, Hedges and Rose Insurance Services Limited was in the process of being dissolved at the date of signing these financial statements

On 14 November 2013 DMWSL 586 Limited sold its entire shareholding in Rio 587 Limited (formerly DMWSL 587 Limited)

continued

15 DEBTORS

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Insurance debtors	31,659	24,571	-	-
Amounts owed by group undertakings	-	-	419	124,481
Other debtors	3,476	2,968	-	12
Deferred tax asset	4,298	-	-	-
Prepayments and accrued income	2,978	3,223	-	-
	42,411	30,762	419	124,493
Amounts falling due after more than one year				
Other debtors	50	100	-	-
Aggregate amounts	42,461	30,862	419	124,493

Amounts owed by group undertakings are unsecured, repayable on demand and are on an interest free basis

16 CASH AT BANK

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Insurance bank accounts	29,067	30,369	-	-
Other cash at bank and in hand	15,548	15,803	11	11
	44,615	46,172	11	11

Insurance bank accounts hold cash on behalf of clients and insurers

continued

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (see note 19)	10,306	8,599	-	-
Hire purchase contracts (see note 20)	4	3	-	-
Insurance creditors	52,611	46,116	-	-
Amounts owed to group undertakings	-	-	-	123,981
Tax	-	5	-	-
Social security and other taxes	1,152	1,044	-	-
VAT	57	18	-	-
Other creditors	1,794	3,571	-	6
Deferred considerations	475	3,200	-	-
Accruals and deferred income	10,134	7,735	-	-
	76,533	70,291	-	123,987

Amounts owed to group undertakings are unsecured, repayable on demand and are on an interest free basis

Pensions
The group operates several contributory pension schemes They are defined contribution schemes and contributions are charged in the profit and loss account as they accrue The charge for the year was £1,192,000 (2012 £926,000) The unpaid contributions outstanding at the year end, included in creditors, are £127,000 (2012 £113,000)

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group	
	2013	2012
	£'000	£'000
Bank loans (see note 19)	109,559	120,417
Hire purchase contracts (see note 20)	11	15
Deferred considerations	180	250
Eurobonds	173,739	158,399
Loan notes	4,200	4,200
Accruals and deferred income	86,499	71,924
	374,188	355,205

continued

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - continued

Details of eurobonds/loan notes issued are shown in the following table

Date of issue	Eurobonds /loan notes £'000	Eurobonds issued in satisfaction of accrued interest £'000	Total £'000
3 March 2008	123,940	-	123,940
17 August 2010	-	3,196	3,196
19 August 2010	4,787	-	4,787
27 January 2011	12,213	-	12,213
31 August 2011	-	8,780	8,780
8 September 2011	4,200	-	4,200
28 August 2012	-	5,483	5,483
23 August 2013	-	15,340	15,340
	145,140	32,799	177,939

The eurobonds accrue interest at a rate of 12% per annum and are repayable on 2 March 2018 The loan notes accrue interest at a rate of 15% per annum and are repayable on the earlier of 2 March 2018 and the date of sale of the business

The interest rate and repayment date of the eurobonds are the same as the loan notes that they replaced The Eurobonds are listed on the Channel Islands Stock Exchange

The interest for the period to 31 August 2013, for both the eurobonds and loan notes, together with subsequent interest will be paid on the earlier of the redemption date of 2 March 2018 and the date of sale of the business

continued

19 LOANS

The term loans comprised of six facilities On 29 November 2010 the Term Loan and Acquisition facilities were reduced and a Deferred Consideration facility was created Details of the term loan commitments are provided below The term loans were recorded net of unamortised loan arrangement fees amounting to £7,212,500 As at 31 August 2013, a total of £6,326,848 (2012 £5,752,744) had been amortised through the profit and loss account, using the sum of digits method, in the period since the loan facilities were arranged

The term loans were secured by a debenture charge over all the assets of Rio 587 Limited (formerly DMWSL 587 Limited), Rio 588 Limited (formerly DMWSL 588 Limited), Quillco 226 Limited, Quillco 227 Limited, Giles Insurance Brokers Limited, Giles Holdings Limited, Dallas Kirkland (Professions) Limited and Ink Underwriting Agencies Limited

Term Facility	Commitment £000	Balance £000	Interest Rate	Repayable
A	19,750	8,170	LIBOR + 3 25%	Increasing instalments between 28 February 2009 and 31 August 2015
B	34,000	30,315	LIBOR + 4 00%	50% on 28 February 2016 and 50% on 31 August 2017
C	31,788	28,342	LIBOR + 4 50%	50 on 28 February 2017 and 50% on 31 August 2017
Acquisition	77,218	49,552	LIBOR + 3 50%	Increasing instalments between 29 February 2012 and 31 August 2015
Deferred Consideration	8,250	4,372	LIBOR + 3 50%	Increasing instalments between 29 February 2012 and 31 August 2015
Revolving	10,000	-	LIBOR + 3 25%	31 August 2015

The maturity of the above term loans is shown in the following table

	Term Loan A £000	Term Loan B £000	Term Loan C £000	Acquisition/ Deferred Consideration Loan £000	2013 Total £000	2012 Total £000
In one year or less	3,754	-	-	6,552	10,306	8,599
1 - 2 years	4,416	-	-	47,372	51,788	9,925
2 - 5 years	-	30,315	28,342	-	58,657	111,952
	8,170	30,315	28,342	53,924	120,751	130,476

On 14 November 2013 the term loans were repaid in full See note 27 for further details

20 OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND LEASES

Group

	Hire purchase contracts	
	2013	**2012**
	£'000	**£'000**
Gross obligations repayable		
Within one year	5	4
Between one and five years	12	17
	17	21
Finance charges repayable		
Within one year	1	1
Between one and five years	1	2
	2	3
Net obligations repayable		
Within one year	4	3
Between one and five years	11	15
	15	18

The following operating lease payments are committed to be paid

Group

	Land and buildings		Other operating leases	
	2013	**2012**	**2013**	**2012**
	£'000	**£'000**	**£'000**	**£'000**
Expiring				
Within one year	603	419	3	3
Between one and five years	1,340	1,459	-	-
In more than five years	833	932	-	-
	2,776	2,810	3	3

21 FINANCIAL INSTRUMENTS

To manage the risk of interest rate movements relating to the group's variable rate bank borrowings, the group enters into derivative contracts when it is considered appropriate

At 31 August 2013, the group had no derivative contracts in place, the previous contract having expired in May 2013

22 CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	**Class:**	**Nominal value**	**2013 £'000**	**2012 £'000**
417,200,000	A ordinary shares	£0 001	417	417
141,119,350	B ordinary shares	£0 001	141	141
			558	558

continued

23 PROFIT AND LOSS ACCOUNT

Group

	Profit and loss account £'000
At 1 September 2012	(147,559)
Loss for the year	(107,906)
At 31 August 2013	(255,465)

Company

	Profit and loss account £'000
At 1 September 2012	-
Loss for the year	(128)
At 31 August 2013	(128)

24 ULTIMATE PARENT COMPANY

The ultimate parent company at 31 August 2013 was Expectrum Limited, which is incorporated in Great Britain and registered in England and Wales, and is the parent undertaking of the smallest and largest group to consolidate these financial statements A copy of the consolidated financial statements is available from Expectrum Limited, 7th Floor, Warwick Court, Paternoster Square, London, EC4M 7DX The ultimate controlling party at 31 August 2013 was funds managed by Charterhouse General Partners (VIII) Limited

On 14 November 2013 Expectrum Limited sold its entire shareholding in Rio 587 Limited (formerly DMWSL 587 Limited) to Arthur J Gallagher & Co , a company incorporated in USA and registered in Delaware As of 14 November 2013 Arthur J Gallagher & Co became the ultimate parent company and ultimate controlling party of the Rio 587 Limited (formerly DMWSL 587 Limited) group

continued

25 OTHER FINANCIAL COMMITMENTS

(i) The Group had a £181,005,910 (2012 £181,005,910) Senior Credit Agreement ('the Debt Agreement') with the Bank of Scotland plc to fund the acquisition of the entire share capital of Quillco 226 Limited and its subsidiary companies

Rio 587 Limited (formerly DMWSL 587 Limited), Rio 588 Limited (formerly DMWSL 588 Limited), Quillco 226 Limited, Quillco 227 Limited, Giles Holdings Limited, Giles Insurance Brokers Limited, Dallas Kirkland (Professions) Limited and Ink Underwriting Agencies Limited had a deed of accession as a guarantor to this Agreement and an intercreditor deed whereby the companies agreed certain ranking and priority arrangements relating to the Debt and a Debenture whereby the companies created a first ranking fixed and floating charge over its assets, property and undertaking and assigned by way of security all their rights, interest, title and benefit in their present and future assets to the Bank of Scotland plc

Subsequent to the balance sheet date these commitments ceased to exist Further information can be found in note 27

(ii) HM Revenue and Customs have stated they believe the provision of membership services provided by Westinsure Group Limited represents a taxable supply and is subject to VAT The directors obtained legal advice from a tax counsel whose opinion is that the membership income is an exempt supply The directors appealed the decision to compulsorily register the company for VAT at a first tier tribunal and the outcome of the appeal was unsuccessful The directors are appealing the tribunal's decision as they believe they will be successful and as such no provision has been made in the financial statements If the appeal is unsuccessful and membership services are subject to VAT the potential liability could be a minimum of £373,980 and depends on the method of partial exemption agreed with HMRC In the event of an unsuccessful appeal outcome the VAT payable would be charged to the profit and loss account There is no material financial risk to the group of either outcome as funds were set aside in escrow at the time of acquisition of Westinsure Group Limited, by the previous owners, to be used in the event of an unsuccessful appeal

continued

26 RELATED PARTY DISCLOSURES

During the year the group rented properties partly owned by C Giles The rent paid for these properties in the year was £17,500 (2012 £17,500) No amounts were owed to or from C Giles in relation to rented properties as at 31 August 2013

During the year the group loaned £984,583 to C Giles The loan accrued interest at 7% per annum and was repayable on the earlier of a sale of the business, a listing of the business or 31 December 2016 The outstanding balance at 31 August 2013 including interest was £1,015,830 The loan was repaid in full on 14 November 2013

During the year the group loaned Ink Underwriting (US) LLC, a company of which C Giles is a director, £157,200 The loan accrued interest at 7% per annum and was repayable on the earlier of a sale of the business, a listing of the business or 31December 2016 The outstanding balance at 31 August 2013 including interest was £163,361 The loan was repaid in full on 14 November 2013

Mr M Scales, a non-executive director of Ink Underwriting Agencies Limited, is also a non-executive director of Newline Underwriting Management Limited and Newline Insurance Company Limited In the year to August 2013, Ink Underwriting Agencies Limited placed £391,000 (2012 £275,000) of gross written premiums with these companies, on an arm's length basis

At 31 August 2013 the group owed eurobond and loan note balances of £157,521,411 (2012 £142,181,633) to Charterhouse Capital Partners LLP ("CCP") The terms of these eurobonds and loan notes are detailed in note 18 Interest of £25,880,203 (2012 £23,214,135) was accrued in the year in relation to these loan notes Eurobonds of £15,339,778 were issued to CCP during the year in satisfaction of a proportion of accrued interest The balance of accrued interest at 31 August 2013 was £69,352,410 (2012 £58,811,985)

At 31 August 2013 the group owed eurobond balances as detailed in the table below The terms of these loans are detailed in note 18

	2013 £'000 C Giles	2013 £'000 Other directors	2012 £'000 C Giles	2012 £'000 Other directors
Eurobond balance as at 31 August	15,850	498	15,850	797
Interest accrued in the year	3,085	93	2,799	139
Accrued interest as at 31 August	13,227	388	10,142	495

27 POST BALANCE SHEET EVENTS

On 14 November 2013 Expectrum Limited sold its entire shareholding in Rio 587 Limited (formerly DMWSL 587 Limited) to Arthur J Gallagher & Co , a company incorporated in USA and registered in Delaware Thus, as of 14 November 2013, Arthur J Gallagher & Co became the ultimate parent company and ultimate controlling party of the Rio 587 Limited (formerly DMWSL 587 Limited) group

Following the change in the ultimate parent company, Rio 588 Limited (formerly DMWSL 588 Limited) repaid all outstanding debt under the Senior Credit Agreement referred to in note 25 Further, all financial commitments, securities and guarantees under the Senior Credit Agreement ceased to exist as of 14 November 2013

28 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

Group

	2013 £'000	2012 £'000
Loss for the financial year	(107,906)	(39,507)
Net increase in shareholders' deficit	(107,906)	(39,507)
Opening shareholders' deficit	(147,001)	(107,494)
Closing shareholders' deficit	(254,907)	(147,001)

Company

	2013 £'000	2012 £'000
Loss for the financial year	(128)	-
Opening shareholders' funds	558	558
Closing shareholders' funds	430	558