

Company No. 32491

Guardian Health Limited

DIRECTOR'S REPORT & ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1996



Guardian

Health

Registered Office:

Royal Exchange, London
EC3V 3LS.



GUARDIAN HEALTH LIMITED

Directors

A J Oddie, F.I.A. (Chairman)
J T Estall, F.C.I.S. (Managing Director)
P W Mason, B.Sc., A.R.C.S., F.I.A.

Secretary

J R W Clayton, M.A.

Auditors

Price Waterhouse

Report of the Directors

The Directors present their report and accounts of the Company for the year ended 31 December 1996.

Review of Activities

There was no change during the year in the principal activity of the Company which consisted of the writing of short-term insurance business.

The short-term Underwriting result, transferred to the non technical account was a small loss. The Company's investments were affected by a decrease in the market value of the Company's Gilt Portfolio, resulting in a corporate investment loss for the year. The overall position was a small loss before tax. The year end financial position was satisfactory, and the Directors expect that this position will be sustained for the foreseeable future.

Policy on Payment of Suppliers

The Company's policy on payments to suppliers is to pay in accordance with the agreed supplier terms provided that the relevant invoice is presented in a timely fashion and is complete.

Profit and Loss Account, Reserves and Dividend

The profit and loss account and the transfer to reserves are set out on pages 6 and 7.

GUARDIAN HEALTH LIMITED

Directors

The names of the Directors of the Company at the date of this report appear above.

Mr J T Estall was appointed Managing Director with effect from 13 August 1996 in succession to Mr M H Tripp who relinquished that position but remained a director of the Company. Messrs A J Oddie and P W Mason were appointed Directors of the Company with effect from 30 September 1996. Mr A J Oddie was elected Chairman of the Board with effect from 30 September 1996. Messrs A Thompson, M H Tripp and W J Wedlake resigned from the Board of Directors on 30 September 1996. Mr P G Edwards resigned from the Board of Directors on 31 December 1996. Mr P W Scott resigned from the Board of Directors on 1 February 1997.

As permitted by the Companies Act 1985, insurance was effected during the year on behalf of the Directors and Secretary in respect of liabilities arising in the course of their duties.

Directors' Interests

According to the register kept under Section 325 of the Companies Act 1985, the interests of Directors in the share capital and debentures of the ultimate parent company, Guardian Royal Exchange plc, and its subsidiary undertakings at 1 January 1996 (or at date of appointment, if later) and 31 December 1996 are set out below.

Ordinary shares held in Guardian Royal Exchange plc

	At 1 January 1996	At 31 December 1996
J T Estall	Nil	Nil
A J Oddie (appointed 30.09.96)	3,000	3,000
P W Scott (resigned 01.02.97)	15,000	3,364

	At 1 January 1996 options to subscribe for ordinary shares	During year options granted options exercised		At 31 December 1996 options to subscribe for ordinary shares
J T Estall	40,000	Nil	Nil	40,000
A J Oddie	32,000	Nil	Nil	32,000
P W Scott	9,859	Nil	Nil	9,859

The options outstanding at 31 December 1996 are exercisable at varying dates between 1997 and 2006 at prices between 100p and 252.5p.

GUARDIAN HEALTH LIMITED

At 1 January 1996 (or date of appointment, if later) and 31 December 1996 shares provisionally allocated under The GRE Long Term Incentive Plan were as follows:

Maximum Conditional Award

	<u>At 1 January 1996</u>	<u>At 31 December 1996</u>
A J Oddie (appointed 30.9.96)	Nil	26,833

The vesting of any awards will be conditional on the Total Shareholder Return for the shareholders of Guardian Royal Exchange plc having reached levels of comparative performance in excess of that achieved by other comparator companies in relation to the four year period comprising financial years from 1 January 1995 to 31 December 1998, and will be exercisable at varying dates between 1999 and 2001.

Further details of The GRE Long Term Incentive Plan are disclosed in the report of the Remuneration Committee in the Report and Accounts of Guardian Royal Exchange plc for the year ended 31 December 1996.

As permitted by Statutory Instrument the register does not include the interests of the following Directors:-

P G Edwards)	Reported by Guardian Insurance Limited
(resigned 31.12.96))	
P W Mason)	

Employee Related Matters

Matters in respect of staff engaged in the Company's activities are included in the accounts of the ultimate parent company, Guardian Royal Exchange plc.

By order of the Board



J R W Clayton
Secretary

13 June 1997

Statement of the 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 or loss of the Company for that period in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

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.

GUARDIAN HEALTH LIMITED

Report of the Auditors

To the Members of Guardian Health Limited

We have audited the financial statements on pages 6 to 17 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 11 and 12.

Respective Responsibilities of Directors and Auditors

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

Basis of Opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1996 and of its loss for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY

18 June 1997

GUARDIAN HEALTH LIMITED

Financial Statements

Profit and Loss Account

For the year ended 31 December 1996

	Continuing Operations			
	1996		1995	
	£'000	£'000	as restated £'000	£'000
General Business Technical Account				
Earned premiums				
Gross written premiums	62,493		37,726	
Outward reinsurance premiums	<u>(5,235)</u>		<u>(4,275)</u>	
		57,258		33,451
 Movement in provision for unearned premiums				
- gross	(7,881)		(4,037)	
- reinsurers' share	<u>102</u>		<u>189</u>	
		(7,779)		(3,848)
 Net earned premiums		<u>49,479</u>		<u>29,603</u>
 Allocated investment return		954		746
 Claims incurred				
Claims paid				
- gross	(44,927)		(28,899)	
- reinsurers' share	<u>4,507</u>		<u>3,476</u>	
	<u>(40,420)</u>		<u>(25,423)</u>	
 Movement in outstanding claims provision				
- gross	(4,893)		(88)	
- reinsurers' share	<u>141</u>		<u>(902)</u>	
	<u>(4,752)</u>		<u>(990)</u>	
 Net claims incurred		(45,172)		(26,413)
 Net operating expenses (note: 1b)		<u>(9,148)</u>		<u>(6,608)</u>
Balance transferred to non-technical account		<u>(3,887)</u>		<u>(2,672)</u>

GUARDIAN HEALTH LIMITED

Financial Statements

Profit and Loss Account

For the year ended 31 December 1996

	Continuing Operations			
	1996	1995	as restated	
	£'000	£'000	£'000	£'000
Non Technical Account				
Balance transferred from general business technical accounts		(3,887)		(2,672)
Income from other investments	2,465		1,532	
Unrealised investment gains	-		1,180	
Investment expenses and charges (<i>see note: 2</i>)	(16)		(179)	
Unrealised investment losses	(451)		-	
Investment return allocated to general business	<u>(954)</u>		<u>(746)</u>	
Corporate investment (loss)/profit		<u>1,044</u>		<u>1,787</u>
Loss on ordinary activities before taxation		(2,843)		(885)
Taxation (<i>note: 3</i>)		<u>928</u>		<u>254</u>
Loss on ordinary activities after taxation		(1,915)		(631)
Dividends		<u>-</u>		<u>-</u>
Transfer from reserves (<i>note: 14</i>)		<u>(1,915)</u>		<u>(631)</u>

GUARDIAN HEALTH LIMITED

Financial Statements

Balance Sheet

As at 31 December 1996

	1996		1995 as restated	
	£'000	£'000	£'000	£'000
Assets				
Investments (note: 6)				
British Government securities	17,544		10,463	
Overseas Government municipal and public boards	1,414		920	
Debentures and debenture stocks - listed	9,296		7,265	
Preference and guaranteed stocks and shares	515		535	
Deposits with credit institutions	875		685	
		29,644		19,868
Reinsurers' share of technical provisions				
Provision for unearned premiums	1,095		994	
Claims outstanding	822		681	
		1,917		1,675
Debtors				
Direct insurance operations (note: 7)	15,504		9,273	
Reinsurance operations	-		-	
Other debtors				
- Due from fellow subsidiary undertakings	1,014		539	
- Other (note: 5)	3,530		3,610	
		20,048		13,422
Other Assets				
Tangible assets (note: 4)	585		420	
Cash	10		-	
		595		420
Prepayments and accrued income				
Accrued interest and rent	469		411	
Deferred acquisition costs	2,515		1,273	
Other	48		29	
		3,032		1,713
Total Assets		<u>55,236</u>		<u>37,098</u>

GUARDIAN HEALTH LIMITED


Financial Statements

Balance Sheet

As at 31 December 1996

	1996		1995 as restated	
	£'000	£'000	£'000	£'000
Liabilities and Reserves				
Capital and reserves				
Called up share capital (note: 13)	18,000		11,000	
Retained earnings (note: 14)	<u>(3,322)</u>		<u>(1,407)</u>	
Equity shareholders' fund		14,678		9,593
Technical provisions				
Provision for unearned premiums	25,320		17,439	
Claims outstanding	<u>11,790</u>		<u>6,774</u>	
		37,110		24,213
Provision for other risks and charges (note: 8)		758		931
Creditors				
Direct operations	423		218	
Reinsurance operations	365		289	
Amounts owed to credit institutions	-		355	
Other creditors (note: 9)	<u>1,560</u>		<u>1,233</u>	
		2,348		2,095
Accruals and deferred income		<u>342</u>		<u>266</u>
Total liabilities and reserves		<u>55,236</u>		<u>37,098</u>

The financial statements on pages 6 to 18 were approved by the Directors and signed on 13 June 1997


A.J. ODDIE

GUARDIAN HEALTH LIMITED

Financial Statements

Statement of total recognised gains & losses

For the year ended 31 December 1996

	1996	1995
	£'000	as restated £'000
Loss on ordinary activities after taxation	<u>(1,915)</u>	<u>(631)</u>

Reconciliation of movements in equity shareholders' funds

For the year ended 31 December 1996

	1996	1995
	£'000	as restated £'000
Equity shareholders' fund at beginning of year	9,593	7,224
Total recognised losses	(1,915)	(631)
Increase in share capital	<u>7,000</u>	<u>3,000</u>
Equity shareholders' funds at end of year	<u>14,678</u>	<u>9,593</u>

GUARDIAN HEALTH LIMITED

Accounting Policies

The accounting policies adopted are in accordance with applicable United Kingdom accounting standards, to the extent that they are appropriate to insurance companies and are in accordance with the guidance notes on accounting for insurance business issued by the Association of British Insurers.

I Basis of accounting

- a) The accounts are prepared in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations").
- b) Corresponding amounts for 1995 have been restated to include, in accordance with market practice, all premiums written and claims paid under contracts governed by the English law of insurance.

The effect of this restatement on 1995 and 1996 written premiums is £4,815,000 and £6,988,000 respectively. Profit before taxation and shareholders' funds are not affected by this restatement.

II Underwriting: Short-term business

- a) *Underwriting Results*
The underwriting results are recognised principally on an annual accounting basis.
- b) *Premiums*
Premiums are accounted for in the period in which the risk commences. Unearned premiums relating to risks in future periods of account are calculated on a daily pro rata, or more conservative, basis.
- c) *Deferred acquisition expenses*
Commission and other acquisition expenses relating to unearned premiums are deferred and charged in the accounting periods in which those premiums are earned.
- d) *Claims*
Provision is made for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date, and for the related costs of settlement.
- e) *Unexpired risks*
Provision is made for unexpired risks when, after taking account of investment income, it is anticipated that unearned premiums will be insufficient to meet the future claims and expenses of business in force at the end of the year.
- f) *Investment return*
An investment return is included in the general business technical account on a basis which reflects the expected return on assets which the Directors consider support that business.

III Investments

a) *Investment Income*

Investments income represents interest, rents and dividends receivable for the year including, where appropriate, related imputed tax credits.

b) *Realised and unrealised gains and losses*

All gains and losses arising on investments are taken to the profit and loss account.

c) *Valuation*

Investments are stated at market values for listed securities, open market valuations as appraised by the Group's professionally qualified staff for properties; and Directors' valuations for other investments.

IV Foreign exchange

Transactions denominated in foreign currencies are recorded at the rates ruling at the date of transaction. Assets and liabilities denominated in foreign currencies are translated at year end exchange rates. Exchange gains and losses are taken to Profit and Loss account.

V Taxation

Provision is made for deferred taxation on unrealised gains and other timing differences where it is considered that a liability will arise in the foreseeable future.

VI Fixed assets and depreciation

Major items of equipment are capitalised and depreciated over their expected useful lives. All other items of equipment are expensed in the year of purchase.

VII Staff pension costs

The charge for pension costs represents the cost of providing pension benefits in respect of employees service during the year.

GUARDIAN HEALTH LIMITED

Notes on Financial Statements

1 General Insurance Business

1a Segmental Information

No separate segmental analysis has been provided as the Company writes only one class of business, namely Healthcare, and operates in only one geographical market, namely the United Kingdom.

1b Analysis of net operating expenses

	1996 £'000	1995 £'000
Acquisition costs	4,549	2,280
Increase in deferred acquisition costs	(1,242)	(297)
Administrative expenses	6,296	5,018
Reinsurance commissions and profit participation	<u>(455)</u>	<u>(393)</u>
	<u>9,148</u>	<u>6,608</u>

2 Corporate Investment Expenses and Charges

	1996 £'000	1995 £'000
Investment management expenses	(16)	(16)
Realised investment losses	<u>-</u>	<u>(163)</u>
	<u>(16)</u>	<u>(179)</u>

GUARDIAN HEALTH LIMITED

3 Taxation

The taxation credit in the profit and loss account is based on the results appearing in the profit and loss account and is detailed below:

	1996 £'000	1995 £'000
Current taxation:		
United Kingdom taxation		
Corporation tax at rate of 33% (1995: 33%)	760	539
Tax relating to franked investment income	(11)	(7)
	<u>749</u>	<u>532</u>
Deferred tax	179	(278)
	<u>928</u>	<u>254</u>
Tax credited in profit and loss account		
Balance sheet (assets)/liabilities for deferred taxation represents:		
	1996 £'000	1995 £'000
Unrealised investment gains/(losses)	(6)	166
Short term timing differences	-	7
	<u>(6)</u>	<u>173</u>

Deferred taxation on realised and unrealised gains and losses has been fully provided for in the profit and loss accounts.

4 Tangible assets

	Cost £'000	Depreciation £'000	Net Book Value £'000
At 1 January	874	454	420
Purchases	419	-	419
Sales	(89)	(53)	(36)
Provision for depreciation	-	218	(218)
At 31 December	<u>1,204</u>	<u>619</u>	<u>585</u>

Tangible assets consist principally of computer equipment and motor vehicles.

5 Other debtors

	1996 £'000	1995 £'000
Tax recoverable	191	447
Deferred tax	6	-
Other debtors	<u>3,333</u>	<u>3,163</u>
	<u>3,530</u>	<u>3,610</u>

GUARDIAN HEALTH LIMITED

Notes on Financial Statements

6 Investments

Investments, which are all listed, are stated at market value. The cost price of investments held at 31 December 1996 was £29,594,000 (1995: £18,682,000)

7 Debts in respect of direct insurance operations

	1996 £'000	1995 £'000
Due from policyholders	6,515	3,471
Due from intermediaries	8,989	5,802
	<u>15,504</u>	<u>9,273</u>

8 Analysis of provisions for other risks and charges

	1996 £'000	1995 £'000
Deferred taxation	-	173
Other provisions	758	758
	<u>758</u>	<u>931</u>

9 Other creditors

	1996 £'000	1995 £'000
Other creditors	949	814
Amount due to parent company	47	20
Amount due to fellow subsidiary undertakings	564	399
	<u>1,560</u>	<u>1,233</u>

The above amounts are all payable within a period of five years.

10 Auditors' remuneration

The remuneration of the auditors amounted to £29,000 (1995: £29,000) all of which was incurred in providing statutory audit services.

11 Capital expenditure commitments

At 31 December 1996 no capital commitments existed (1995: Nil).

GUARDIAN HEALTH LIMITED

Notes on Financial Statements

12 Staff Pension Costs

Staff engaged in the Company's activities are employees of Guardian Insurance Limited and members of the Guardian Royal Exchange Pension Fund. Full disclosure of staff pension costs as required by SSAP24 in respect of contributions to the Guardian Royal Exchange Pension Fund is contained in the accounts of the ultimate parent company, Guardian Royal Exchange plc.

The pension fund charge for the year is £348,000 (1995: £284,000).

13 Share Capital

	1996 £'000	1995 £'000
Authorised: 4,000,000 (1995: 4,000,000) ordinary shares of £5 each	20,000	20,000
Issued:		
At beginning of year: 2,200,000 (1995: 1,600,000 fully paid ordinary shares of £5 each	11,000	8,000
Issued in year: 1,400,000 (1995: 600,000) fully paid ordinary shares of £5 each	7,000	3,000
At end of year: 3,600,000 (1995: 2,200,000) fully paid ordinary shares of £5 each	18,000	11,000

The ordinary shares issued and fully paid during the year were allotted to support the continuing expansion of the business.

14 Retained Earnings

	1996 £'000	1995 £'000
Balance at 1 January	(1,407)	(776)
Transfer to Profit and loss account	(1,915)	(631)
Balance at 31 December	(3,322)	(1,407)

15 Contingent Liabilities

With the approval of the Department of Trade and Industry, the Company, its ultimate holding company, its parent company, and certain of its fellow subsidiaries, have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of short-term general business.

GUARDIAN HEALTH LIMITED

Notes on Financial Statements

16 Directors' emoluments

The following information relates to the emoluments of Directors for their services to the company. All the Directors are employees of the Guardian Royal Exchange plc group, by whom they are paid and their directorships are held as part of that employment. With the exception of one, no Director has received any emoluments or other benefits directly from the company. For the purposes of disclosure, the emoluments shown below comprise the proportion of the Directors' total remuneration estimated to be attributable to their duties performed on behalf of the company. The aggregate remuneration of the Directors including expense allowances in so far as those sums are charged to United Kingdom income tax, amounted to £143,170 (1995: £129,506), including pension fund contributions of £15,032 (1995: £16,476).

Emoluments excluding pension contributions:

	1996	1995
Of the chairman to 30 September 1996	Nil	£ 2,763
Of the chairman from 30 September 1996	Nil	-
Of the highest paid Director:	£115,494	£ 94,147
Of the remaining Directors during their period of directorship:	Number	Number
£0 - £5,000	4	3
£10,001 - £15,000	1	1

17 Related Parties

As the Company is a wholly owned subsidiary, it has taken advantage of the exemption granted under Financial Reporting Standard 8 (Related Party Disclosures) where subsidiary undertakings do not have to disclose transactions with Group companies qualifying as related parties provided that consolidated financial statements are publicly available.

18 Ultimate Parent

The Directors regard Guardian Royal Exchange plc, registered in England, as being the ultimate parent company. Copies of Guardian Royal Exchange plc Group accounts can be obtained from the Royal Exchange, London, EC3V 3LS. No intermediate parent company produces group accounts.

19 Principal subsidiary undertakings

Other companies	Country of Incorporation	Holding of ordinary shares
Guardian Healthcare Services Limited (non-trading)	England	100%

As permitted under Section 288 (2) of the Companies Act 1985, the Company is exempt from preparing and delivering group accounts.