

**SOUTH ESSEX INSURANCE GROUP LIMITED**

**Company No. 779100**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31ST DECEMBER 1997**



# South Essex Insurance Group Limited

## INDEX

1	Report of the Director
2	Report of the Auditors
3	Consolidated Profit and Loss Account
4	Consolidated Balance Sheet
5	Balance Sheet
6 to 7	Cash Flow Statement
8 to 17	Notes to the Financial Statements

# South Essex Insurance Group Limited

## Report of the Director

The director presents his annual report and the audited financial statements for the year ended 31st December 1997.

### Principal Activities and Business Review

The companies within the South Essex Insurance Group carry on business as insurance brokers, mortgage and finance consultants, travel agents and the provision of equestrian schooling. The director considers that the results of the group are satisfactory in light of the prevailing economic climate.

### Results and Dividend

The results of the group for the year are set out on page 3.

The director does not recommend the payment of a dividend as the funds of the company are fully employed.

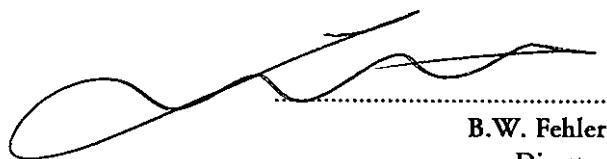
### Director and his Interest

The director who served the company throughout the year together with his interest in the shares of the company, at the beginning and end of the year, was as follows:

	Ordinary Shares of £1 each	
	31.12.1997	1.1.1997
B.W. Fehler	1,000	1,000

### Auditors

Kingston Smith have indicated their willingness to continue in office and in accordance with the provisions of the Companies Act 1985 it is proposed that they be re-appointed auditors for the ensuing year.



B.W. Fehler  
Director

Date: 23<sup>rd</sup> June 1998

South Essex House  
North Road  
South Ockendon  
Essex

# **South Essex Insurance Group Limited**

## **Director's Responsibilities and Report of the Auditors**

### **Statement of Director's Responsibilities**

Company law requires the director to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period.

In preparing those financial statements, the director is required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and prepare the financial statements on a going concern basis unless it is inappropriate to assume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable him to ensure that the financial statements comply with the Companies Act 1985. He is 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.

### **Auditors' Report to the Members of South Essex Insurance Group Limited**

We have audited the financial statements on pages 3 to 16 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 page 8 and 9.

#### **Respective Responsibilities of Director and Auditors**

As described above the company's director is responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of Opinion**


We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the director 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.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st December 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Date: 26<sup>th</sup> June 1998  
Devonshire House  
60 Goswell Road  
London EC1M 7AD

  
KINGSTON SMITH  
Chartered Accountants  
and Registered Auditors

**South Essex Insurance Group Limited**  
**Consolidated Profit and Loss Account**  
**For the year ended 31st December 1997**

	Note	1997 £	As Restated 1996 £
Turnover	2	3,088,209	2,500,889
Cost of sales		<u>(2,688,029)</u>	<u>(2,183,277)</u>
Gross Profit		400,180	317,612
Commission receivable	2	2,059,350	2,003,337
Administrative expenses		<u>(2,512,907)</u>	<u>(2,348,663)</u>
Operating Loss		(53,377)	(27,714)
Interest receivable and similar income		145,669	134,097
Interest payable and similar charges	4	<u>(75,422)</u>	<u>(74,705)</u>
Profit on Ordinary Activities before Taxation	5	16,870	31,678
Taxation	6	<u>(19,713)</u>	<u>(27,649)</u>
(Loss)/Profit for the Financial Year transferred to Reserves	7	<u><u>(2,843)</u></u>	<u><u>4,029</u></u>

**Statement of Total Recognised Gains and Losses**  
**For the year ended 31st December 1997**

(Loss)/profit for the financial year		(2,843)	4,029
Prior year adjustment	18	<u>(62,600)</u>	<u>-</u>
Total gains and losses recognised since last Annual Report		<u><u>(65,443)</u></u>	<u><u>4,029</u></u>

# South Essex Insurance Group Limited

## Consolidated Balance Sheet at 31st December 1997

	Note	1997 £	1997 £	As Restated 1996 £	1996 £
<b>Fixed Assets</b>					
Intangible assets	8		117,178		132,801
Tangible assets	9		872,147		805,145
Investments	10		<u>4,000</u>		<u>4,000</u>
			993,325		941,946
<b>Current Assets</b>					
Stocks	11	111,886		139,076	
Debtors	12	1,840,656		1,668,121	
Cash at bank and in hand:					
Insurance broking accounts		20,774		10,023	
Office accounts		<u>459,440</u>		<u>312,145</u>	
		2,432,756		2,129,365	
<b>Creditors: Amounts falling due within one year</b>	13	<u>2,543,420</u>		<u>2,243,895</u>	
<b>Net Current Liabilities</b>			<u>(110,664)</u>		<u>(114,530)</u>
<b>Total Assets less Current Liabilities</b>			882,661		827,416
<b>Creditors: Amounts falling due after more than one year</b>	14		<u>420,793</u>		<u>362,705</u>
<b>Net Assets</b>			<u><u>461,868</u></u>		<u><u>464,711</u></u>
<b>Capital and Reserves</b>					
Called up share capital - equity interests	15		1,000		1,000
Profit and loss account	15		<u>460,868</u>		<u>463,711</u>
<b>Shareholders' Funds</b>			<u><u>461,868</u></u>		<u><u>464,711</u></u>

The financial statements were approved by the director on 23rd June 1998

  
B.W. Felder .....

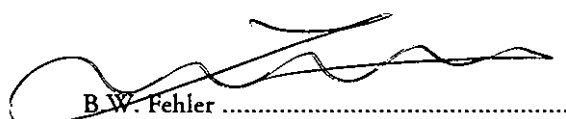
Director

# South Essex Insurance Group Limited

## Balance Sheet at 31st December 1997

	Note	1997 £	1997 £	1996 £	1996 £
<b>Fixed Assets</b>					
Tangible assets	9		149,468		61,613
Investments	10		<u>3,559,000</u>		<u>3,545,000</u>
			3,708,468		3,606,613
<b>Current Assets</b>					
Debtors	12	195,823		249,682	
Creditors: Amounts falling due within one year	13	<u>131,382</u>		<u>113,732</u>	
Net Current Assets			<u>64,441</u>		<u>135,950</u>
Total Assets less Current Liabilities			3,772,909		3,742,563
Creditors: Amounts falling due after more than one year	14		<u>165,925</u>		<u>110,000</u>
Net Assets			<u><u>3,606,984</u></u>		<u><u>3,632,563</u></u>
<b>Capital and Reserves</b>					
Called up share capital - equity interests	15		1,000		1,000
Profit and loss account	15		805,984		831,563
Revaluation reserve	15		<u>2,800,000</u>		<u>2,800,000</u>
Shareholders' Funds			<u><u>3,606,984</u></u>		<u><u>3,632,563</u></u>

The financial statements were approved by the director on 23rd June 1998

  
B.W. Fehler .....

Director

**South Essex Insurance Group Limited**  
**Consolidated Cash Flow Statement**  
**For the year ended 31st December 1997**

	Note	1997 £	1997 £	As Restated 1996 £	1996 £
Net Cash Inflow/(Outflow) from Operating Activities	1		374,790		(111,557)
Returns on Investments and Servicing of Finance					
Interest received		145,419		134,097	
Interest paid		<u>(75,422)</u>	69,997	<u>(74,705)</u>	59,392
Taxation			(32,813)		(21,748)
Capital Expenditure and Financial Investment					
Payments to purchase investments		-		(4,000)	
Purchase of tangible fixed assets		(262,119)		(82,004)	
Receipts from sale of tangible fixed assets		<u>67,363</u>	<u>(194,756)</u>	<u>17,078</u>	<u>(68,926)</u>
Increase/(Decrease) in Cash	2		<u>217,218</u>		<u>(142,839)</u>

**Reconciliation of Net Cash Flow to Movement in Net Debt**

	£	£
Increase/(decrease) in cash in the year	217,218	(142,839)
Net debt at 1st January 1997	<u>(157,754)</u>	<u>(14,915)</u>
Net funds/(debt) at 31st December 1997	<u>59,464</u>	<u>(157,754)</u>



**South Essex Insurance Group Limited**  
**Notes to the Consolidated Cash Flow Statement**  
**For the year ended 31st December 1997**

	1997	As Restated 1996
	£	£
1 Reconciliation of Operating Loss to Net Cash Inflow/(Outflow) from Operating Activities		
Operating loss	(53,127)	(27,714)
Depreciation and amortisation	157,755	155,865
Profit on sale of tangible fixed assets	(14,378)	(5,989)
Decrease/(increase) in stock	27,190	(4,566)
Increase in debtors	(172,535)	(338,103)
Increase in creditors	<u>429,885</u>	<u>108,950</u>
 Net Cash Inflow/(Outflow) from Operating Activities	 <u><u>374,790</u></u>	 <u><u>(111,557)</u></u>

2 Analysis of changes in Net Debt

	At 1.1.97	Cash Flow	At 31.12.97
	£	£	£
Cash at bank and in hand:			
Insurance broking account	10,023	10,751	20,774
Office account	312,145	147,295	459,440
Bank loans and overdrafts	<u>(479,922)</u>	<u>59,172</u>	<u>(420,750)</u>
	<u><u>(157,754)</u></u>	<u><u>217,218</u></u>	<u><u>59,464</u></u>

# South Essex Insurance Group Limited

## Notes to the Financial Statements

### For the year ended 31st December 1997

#### 1 Accounting Policies

##### Accounting Basis and Standards

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

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

##### Consolidation

The consolidated financial statements incorporate the financial statements of South Essex Insurance Group Limited and its group undertakings. The financial statements of all group undertakings are made up to 31st December annually.

##### Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets over their estimated useful lives as follows:

Freehold land	nil
Freehold buildings	1% per annum
Motor vehicles	4 years straight line
Furniture, fittings and equipment	between 5 and 10 years straight line

##### Stocks

Stocks are stated at the lower of cost and net realisable value.

##### Deferred Taxation

Deferred taxation is provided in respect of the taxation effect of all timing differences other than those which are expected with reasonable probability to continue in the foreseeable future.

##### Commission

Commission, other than life commission, is credited to the profit and loss account in accordance with amounts receivable from insurance companies. Life commissions are credited to the profit and loss account as they are received.

##### Foreign Currencies

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Assets held under foreign currencies are translated into Sterling at the rate of exchange ruling at the end of the financial year. All exchange differences are dealt with in the profit and loss account.

##### Goodwill

Goodwill is determined by comparing the amount paid on the acquisition of a business and the aggregate fair value of its separable net liabilities and is written off over its estimated economic life of 15 years.

##### Leasing and Hire Purchase

Assets held under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged in the profit and loss account over the period of the lease. Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

**South Essex Insurance Group Limited**  
**Notes to the Financial Statements**  
**For the year ended 31st December 1997 (Continued)**

**1 Accounting Policies (Continued)**

**Pension Scheme Arrangements**

Pension arrangements are being made for certain individuals employed by the group. Such arrangements all relate to money purchase schemes (defined contributions) and may at the sole discretion of the group be discontinued at any time with no outgoing liability to the group. Such contributions are held in trustee administered funds completely independent of the group's finances. The contributions made by the group are charged against profits on an accruals basis.

**2 Turnover**

Turnover represents the value of services provided where invoiced in full. Deposits received have been treated as deferred income. Commission represents commission receivable from insurance companies.

**3 Staff Numbers and Costs**

The average number of persons employed by the group (including the director) during the year was as follows:

	1997	1996
Management	3	3
Administration	14	13
Clerical	54	53
Farm staff and grooms	2	3
<b>Total employees</b>	<u>73</u>	<u>72</u>

The aggregate payroll costs of these persons were as follows:

	1997	1996
	£	£
Wages and salaries	957,664	938,281
Social security costs	86,253	77,859
Pension contributions	17,991	16,601
	<u>1,061,908</u>	<u>1,032,741</u>
<b>Director's emoluments</b>	<u>73,259</u>	<u>68,952</u>

**4 Interest Payable and Similar Charges**

On bank loans and overdrafts and other loans repayable by instalments:

	1997	1996
	£	£
within five years	34,754	39,756
after five years	32,479	17,987
Finance lease and hire purchase interest	8,189	11,933
Other interest	-	5,029
	<u>75,422</u>	<u>74,705</u>

**South Essex Insurance Group Limited**  
**Notes to the Financial Statements**  
**For the year ended 31st December 1997 (Continued)**

<b>5</b>	<b>Profit on Ordinary Activities before Taxation</b>	<b>1997 £</b>	<b>1996 £</b>
	Profit on ordinary activities before taxation is stated after charging:		
	Auditors' remuneration and expenses	21,764	19,533
	Depreciation:		
	Owned tangible fixed assets	100,245	88,582
	Assets held under finance leases	41,887	51,660
	Amortisation of goodwill	15,623	15,623
	Loss on foreign exchange	12,422	9,311
	Operating lease charges - office equipment	<u>68,432</u>	<u>65,851</u>
<b>6</b>	<b>Taxation</b>	<b>1997 £</b>	<b>1996 £</b>
	Corporation tax at the rate of 21.75% (1996 - 25%)	<u>(19,713)</u>	<u>(27,649)</u>
<b>7</b>	<b>(Loss)/Profit for the Financial Year</b>	<b>1997 £</b>	<b>1996 £</b>
	Dealt with in the accounts of the company	(39,579)	(19,643)
	Retained by group undertakings	<u>36,736</u>	<u>23,672</u>
		<u>(2,843)</u>	<u>4,029</u>

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the company is not presented as part of these financial statements.

**South Essex Insurance Group Limited**  
**Notes to the Financial Statements**  
**For the year ended 31st December 1997 (Continued)**

**8 Intangible Assets**

	Goodwill £
<b>Cost</b>	
At 1st January 1997 and at 31st December 1997	<u>234,351</u>
<b>Amortisation</b>	
At 1st January 1997	101,550
Charge for the year	<u>15,623</u>
At 31st December 1997	<u>117,173</u>
<b>Net Book Value</b>	
At 31st December 1997	<u>117,178</u>
At 31st December 1996	<u>132,801</u>

**9 Tangible Assets**

**Company**

	Furniture, Fittings and Equipment £	Freehold Property £	Total £
<b>Cost</b>			
At 1st January 1997	137,422	-	137,422
Additions	<u>33,153</u>	<u>88,097</u>	<u>121,250</u>
At 31st December 1997	<u>170,575</u>	<u>88,097</u>	<u>258,672</u>
<b>Depreciation</b>			
At 1st January 1997	75,809	-	75,809
Charge for the year	<u>32,915</u>	<u>480</u>	<u>33,395</u>
At 31st December 1997	<u>108,724</u>	<u>480</u>	<u>109,204</u>
<b>Net Book Value</b>			
At 31st December 1997	<u>61,851</u>	<u>87,617</u>	<u>149,468</u>
At 31st December 1996	<u>61,613</u>	<u>-</u>	<u>61,613</u>

The net book value of the company's fixed assets includes an amount of £13,332 (1996 - £31,702) in respect of assets held under finance leases and hire purchase contracts.

Freehold land valued at £40,000 is not depreciated.

**South Essex Insurance Group Limited**  
**Notes to the Financial Statements**  
**For the year ended 31st December 1997 (Continued)**

**9 Tangible Assets (Continued)**

Group	Freehold Properties	Motor Vehicles	Furniture, Fittings and Equipment	Total
Cost or valuation	£	£	£	£
At 1st January 1997	541,603	323,647	681,814	1,547,064
Additions	88,097	132,316	41,706	262,119
Disposals	-	(123,783)	-	(123,783)
At 31st December 1997	<u>629,700</u>	<u>332,180</u>	<u>723,520</u>	<u>1,685,400</u>
Depreciation				
At 1st January 1997	10,066	217,248	514,605	741,919
Charge for the year	2,998	66,594	72,540	142,132
Disposals	-	(70,798)	-	(70,798)
At 31st December 1997	<u>13,064</u>	<u>213,044</u>	<u>587,145</u>	<u>813,253</u>
Net Book Value				
At 31st December 1997	<u>616,636</u>	<u>119,136</u>	<u>136,375</u>	<u>872,147</u>
At 31st December 1996	<u>531,537</u>	<u>106,399</u>	<u>167,209</u>	<u>805,145</u>

Freehold land valued at £397,500 is not depreciated.

The net book value of the group's fixed assets includes an amount of £119,417 (1996 - £90,818) in respect of assets held under finance leases and hire purchase contracts.

**10 Investments**

**Company**

	Subordinated Loan to Group Undertakings	Shares in Group Undertakings	Total
Cost or Valuation	£	£	£
At 1st January 1997	241,000	3,304,000	3,545,000
Addition in year	14,000	-	14,000
At 31st December 1997	<u>255,000</u>	<u>3,304,000</u>	<u>3,559,000</u>

The following details relate to the company's wholly owned subsidiary undertakings, all of which are incorporated in Great Britain. All three subsidiaries are included in the consolidated financial statements.

The company's investment in South Essex Insurance Brokers Limited was revalued by the Director on 31 December 1995 to reflect its market value.

The revaluation was carried out on the basis of market values of comparable companies that were sold during 1995.

Subsidiary Undertaking	Class of Shares Held	Nature of Business
South Essex Insurance Brokers Limited	Ordinary	Insurance Brokers
Harlequin Worldwide Travel Limited	Ordinary	Travel Agents
South Essex Equestrian Services Limited	Ordinary	Equestrian Schooling and Farming

**South Essex Insurance Group Limited**  
**Notes to the Financial Statements**  
**For the year ended 31st December 1997 (Continued)**

**10 Investments (Continued)**

Group	1997 £	1996 £
Unlisted investments at cost	<u>4,000</u>	<u>4,000</u>

**11 Stocks**

Group	1997 £	1996 £
Show horses and livestock	98,600	122,500
Animal feed	<u>13,286</u>	<u>16,576</u>
	<u>111,886</u>	<u>139,076</u>

**12 Debtors**

Company	1997 £	1996 £
Amounts owed by group undertakings	179,200	218,730
Other debtors	11,470	29,496
Prepayments and accrued income	<u>5,153</u>	<u>1,456</u>
	<u>195,823</u>	<u>249,682</u>
 Group		
Amount due from principals and insurance companies in respect of insurance transactions	1,467,305	1,332,176
Trade debtors	84,091	16,589
Other debtors	229,134	257,404
Prepayments and accrued income	<u>60,126</u>	<u>61,952</u>
	<u>1,840,656</u>	<u>1,668,121</u>

Included in other debtors is an amount of £1,805 (1996 - £9,176) due from B.W. Fehler, the director. The maximum liability during 1997 was £15,048. The loan is unsecured and interest free.

**South Essex Insurance Group Limited**  
**Notes to the Financial Statements**  
**For the year ended 31st December 1997 (Continued)**

13 Creditors: Amounts falling due within one year	1997 £	1996 £
<b>Company</b>		
Bank loans and overdraft	85,178	74,644
Amounts due to group undertakings	15,266	3,500
Obligations under finance leases	8,445	12,992
Taxation and social security	2,003	-
Accruals and deferred income	<u>20,490</u>	<u>22,596</u>
	<u>131,382</u>	<u>113,732</u>
<b>Group</b>		
Bank loans and overdrafts	198,253	302,958
Amounts due to principals and insurance companies in respect of insurance transactions	1,418,054	1,205,590
Trade creditors	589,683	378,431
Corporation tax	500	13,600
Social security and other taxes	29,799	28,553
Other creditors	15,947	6,253
Obligations under finance leases	45,473	52,206
Accruals and deferred income	<u>245,711</u>	<u>256,304</u>
	<u>2,543,420</u>	<u>2,243,895</u>

Bank loans and overdrafts are secured by a fixed and floating charge over the assets of the group.

14 Creditors: Amounts falling due after more than one year	1997 £	1996 £
<b>Company</b>		
Bank loan	54,749	-
Director's loan	110,000	110,000
Obligations under finance leases	<u>1,176</u>	<u>-</u>
	<u>165,925</u>	<u>110,000</u>
<b>Group</b>		
Bank loans	222,497	176,964
Director's loan	110,000	110,000
Obligations under finance leases	18,296	5,741
Pension scheme	<u>70,000</u>	<u>70,000</u>
	<u>420,793</u>	<u>362,705</u>
<b>Bank loans repayable by instalments:</b>		
between one and two years	40,519	29,935
between two and five years	132,358	89,805
after five years	<u>49,620</u>	<u>57,224</u>
	<u>222,497</u>	<u>176,964</u>

The bank loans totalling £132,677 (1996: £83,454) and £89,820 (1996: £93,510) are repayable in instalments by March 2007 and October 2010 respectively, and carry interest at 3% over Barclays Bank plc base rate and 10.7% respectively. The loans are secured on the group's freehold properties.

The amount owed to pension scheme is repayable:	1997 £	1996 £
Between one and two years	25,000	-
Between two and five years	45,000	25,000
After five years	<u>-</u>	<u>45,000</u>
	<u>70,000</u>	<u>70,000</u>



**South Essex Insurance Group Limited**  
**Notes to the Financial Statements**  
**For the year ended 31st December 1997 (Continued)**

15 Shareholders' Funds

Company	Called up Share Capital £	Revaluation Reserve £	Profit and Loss Account £	Total £
Balance at 1st January 1997	1,000	2,800,000	831,563	3,632,563
Transfer from profit and loss account	-	-	(25,579)	(25,579)
Balance at 31st December 1997	<u>1,000</u>	<u>2,800,000</u>	<u>805,984</u>	<u>3,606,984</u>
Balance at 1st January 1996	1,000	2,800,000	450,206	3,251,206
Transfer from profit and loss account	-	-	381,357	381,357
Balance at 31st December 1996	<u>1,000</u>	<u>2,800,000</u>	<u>831,563</u>	<u>3,632,563</u>
Group	Called up Share Capital £	Revaluation Reserve £	Profit and Loss Account £	Total £
Balance at 1st January 1997 as previously stated	1,000	-	526,311	527,311
Prior year adjustment (Note 18)	-	-	(62,600)	(62,600)
Balance at 1st January 1997 as restated	1,000	-	463,711	464,711
Transfer from profit and loss account	-	-	(2,843)	(2,843)
Balance at 31st December 1997	<u>1,000</u>	<u>-</u>	<u>460,868</u>	<u>461,868</u>
Balance at 1st January 1996 as previously stated	1,000	98,260	413,067	512,327
Prior year adjustment (note 18)	-	-	(51,645)	(51,645)
Balance at 1st January 1996 as restated	1,000	98,260	361,422	460,682
Transfer from profit and loss account as restated	-	-	4,029	4,029
Transfer from revaluation reserve	-	(98,260)	98,260	-
Balance at 31st December 1996 as restated	<u>1,000</u>	<u>-</u>	<u>463,711</u>	<u>464,711</u>
The authorised share capital comprises:			1997 £	1996 £
Authorised:				
1,000 Ordinary shares of £1 each			<u>1,000</u>	<u>1,000</u>
Called up, allotted and fully paid:				
1,000 Ordinary shares of £1 each			<u>1,000</u>	<u>1,000</u>

**South Essex Insurance Group Limited**  
**Notes to the Financial Statements**  
**For the year ended 31st December 1997 (Continued)**

**16 Future Financial Commitments**

**Operating Leases**

At 31st December 1997, the group had annual commitments under operating leases as set out below:

	1997		1996	
	Land and Buildings	Other	Land and Buildings	Other
	£	£	£	£
Operating leases which expire:				
within one year	-	9,200	-	9,724
in the second to fifth years	-	14,088	-	8,928
after five years	14,000	-	14,000	-
	<u>14,000</u>	<u>23,288</u>	<u>14,000</u>	<u>18,652</u>

**Finance Leases**

At 31st December 1997, the group had obligations under finance leases and hire purchase contracts which are set out below:

	1997	1996
	£	£
Gross amount payable:		
within one year	46,055	42,947
in the second to fifth years	<u>23,369</u>	<u>21,583</u>
	69,424	64,530
Deduct: Finance charges allocated to future periods	<u>(5,655)</u>	<u>(6,583)</u>
	<u>63,769</u>	<u>57,947</u>

**17 Contingent Liabilities**

The company has entered into a guarantee with other group companies to secure the bank borrowings of the group companies, which is secured by a fixed and floating charge over the assets of the group. At 31st December 1997 the potential liability amounted to £355,200 (1996 - £479,922).

The group has given Barclays Bank plc a general indemnity in respect of bonds issued by the bank in favour of the Association of British Travel Agents (ABTA), the International Air Transportation Authority (IATA), and the Civil Aviation Authority (CAA). The amount of these bonds at 31st December 1997 was £517,500 (1996 - £432,750).

**18 Prior Year Adjustment**

Following a review of the affairs of South Essex Insurance Pension Fund, it was discovered that the pension fund has not been charging market rent for premises it leases to a subsidiary company. Rent arrears amounting to £80,000 were therefore charged to the subsidiary company during the year. The comparative figures in the group financial statements have been restated as follows:

	1996	Prior to 1996	Total
	£	£	£
Rent arrears	14,000	66,000	80,000
Less: Corporation tax at 21.75%	<u>3,045</u>	<u>14,355</u>	<u>17,400</u>
Net reduction in reported profits	<u>10,955</u>	<u>51,645</u>	<u>62,600</u>

**19 Controlling Party**

The controlling party is Mr. B.W. Fehler by virtue of his ownership of 100% of the issued share capital in the company.