

SOUTH ESSEX INSURANCE GROUP LIMITED

Company No. 779100

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 1996



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 1996.

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.

It is recommended that the whole of the retained profit be set aside to reserves.

Fixed Assets

The movements in the fixed assets are set out in notes 8 to 10 of the financial statements. During the year the investments in the subsidiaries were revalued by the director.

Director

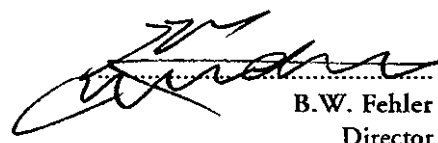
The interest of the director in the share capital was as follows:

	31.12.1996	1.1.1996
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.

By Order of the Board



B.W. Fehler
Director

18 Dec 1997

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 of the profit or loss of the company 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 them to ensure that the financial statements comply with the Companies Act 1985. 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.

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 and the accounting policies set out on page 8 and 9.

Respective Responsibilities of Directors and Auditors

As described above the company's directors are 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.

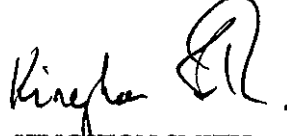
Basis of Opinion

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 directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

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 1996 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KINGSTON SMITH
Chartered Accountants
and Registered Auditors

18 June 1997
Devonshire House
60 Goswell Road
London EC1M 7AD

South Essex Insurance Group Limited
Consolidated Profit and Loss Account
For the year ended 31st December 1996

	Note	1996 £	1995 £
Turnover	2	2,500,889	1,651,503
Cost of sales		<u>(2,183,277)</u>	<u>(1,443,271)</u>
Gross Profit		317,612	208,232
Commission receivable	2	2,003,337	1,919,759
Administrative expenses		(2,334,663)	(2,177,983)
Interest receivable and similar income		134,097	117,554
Interest payable and similar charges	4	<u>(74,705)</u>	<u>(71,059)</u>
Profit/(Loss) on Ordinary Activities before Taxation	5	45,678	(3,497)
Taxation	6	<u>(30,694)</u>	<u>6,874</u>
Retained Profit on Ordinary Activities after Taxation for the Financial Year	7	<u><u>14,984</u></u>	<u><u>3,377</u></u>

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

South Essex Insurance Group Limited

Consolidated Balance Sheet at 31st December 1996

	Note	1996 £	1996 £	1995 £	1995 £
Fixed Assets					
Intangible assets	8		132,801		148,424
Tangible assets	9		805,145		949,472
Investment	10		<u>4,000</u>		<u>-</u>
			941,946		1,097,896
Current Assets					
Stocks	11	139,076		134,510	
Debtors	12	1,668,121		1,330,018	
Cash at bank and in hand:					
Insurance broking accounts		10,023		220,157	
Office accounts		<u>312,145</u>		<u>104,782</u>	
		2,129,365		1,789,467	
Creditors: Amounts falling due within one year	13	<u>2,181,295</u>		<u>1,890,980</u>	
Net Current Liabilities			<u>(51,930)</u>		<u>(101,513)</u>
Total Assets less Current Liabilities			890,016		996,383
Creditors: Amounts falling due after more than one year	14		<u>362,705</u>		<u>409,056</u>
Net Assets			<u><u>527,311</u></u>		<u><u>587,327</u></u>
 Capital and Reserves					
Called up share capital - equity interests	15		1,000		1,000
Revaluation reserve	15		-		173,260
Profit and loss account	15		<u>526,311</u>		<u>413,067</u>
Shareholders Funds			<u><u>527,311</u></u>		<u><u>587,327</u></u>

The financial statements were approved by the director on 18 June 1997

B.W. Fehler

Director

South Essex Insurance Group Limited

Balance Sheet at 31st December 1996

	Note	1996 £	1996 £	1995 £	1995 £
Fixed Assets					
Tangible assets	9		61,613		80,198
Investments	10		<u>3,545,000</u>		<u>3,330,000</u>
			3,606,613		3,410,198
Current Assets					
Debtors	12	249,682		56,374	
Creditors: Amounts falling due within one year	13	<u>113,732</u>		<u>92,375</u>	
Net Current Liabilities			<u>135,950</u>		<u>(36,001)</u>
Total Assets less Current Liabilities			3,742,563		3,374,197
Creditors: Amounts falling due after more than one year	14		<u>110,000</u>		<u>122,991</u>
Net Assets			<u><u>3,632,563</u></u>		<u><u>3,251,206</u></u>
Capital and Reserves					
Called up share capital - equity interests	15		1,000		1,000
Profit and loss account	15		831,563		450,206
Revaluation reserve	15		<u>2,800,000</u>		<u>2,800,000</u>
Shareholders Funds			<u><u>3,632,563</u></u>		<u><u>3,251,206</u></u>

The financial statements were approved by the director on 18 June 1997

B.W. Felder

Director

South Essex Insurance Group Limited
Consolidated Cash Flow Statement
For the year ended 31st December 1996

	Note	1996 £	1996 £	1995 £	1995 £
Net Cash Outflow from Operating Activities	1		(111,557)		(125,087)
Returns on Investments and Servicing of Finance					
Interest received		134,097		117,554	
Interest paid		<u>(74,705)</u>		<u>(71,059)</u>	
Net Cash Inflow from Returns on Investments and Servicing of Finance			59,392		46,495
Taxation					
Corporation tax paid (including advance corporation tax)			(21,748)		(65,554)
Investing Activities					
Payments to purchase investments		(4,000)		-	
Purchase of tangible fixed assets		(82,004)		(222,714)	
Receipts from sale of tangible fixed assets		<u>17,078</u>		<u>397,168</u>	
Net Cash (Outflow)/Inflow from Investing Activities			<u>(68,926)</u>		<u>174,454</u>
(Decrease)/Increase in Cash Equivalents	2		<u>(142,839)</u>		<u>30,308</u>

South Essex Insurance Group Limited
Notes to the Consolidated Cash Flow Statement
For the year ended 31st December 1996

1	Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities	1996 £	1995 £
	Operating profit	(13,714)	(49,992)
	Depreciation	155,865	153,622
	Profit on sale of tangible fixed assets	(5,989)	(40,702)
	Increase in stock	(4,566)	(24,595)
	Increase in debtors	(338,103)	(545,165)
	Increase in creditors	94,950	381,745
	Net Cash Outflow from continuing Operating Activities	<u>(111,557)</u>	<u>(125,087)</u>

2	Analysis of changes in cash and cash equivalents during the Year	1996 £	1995 £
	Balance at 1st January 1996	(14,915)	(45,223)
	Net cash (outflow)/inflow	<u>(142,839)</u>	<u>30,308</u>
	Balance at 31st December 1996	<u>(157,754)</u>	<u>(14,915)</u>

3	Analysis of the balances of cash and cash equivalents as shown in the Balance Sheet	1996 £	1995 £	Change in year £
	Cash at bank and in hand:			
	Insurance broking account	10,023	220,157	(210,134)
	Office account	312,145	104,782	207,363
	Bank loan	<u>(479,922)</u>	<u>(339,854)</u>	<u>(140,068)</u>
		<u>(157,754)</u>	<u>(14,915)</u>	<u>(142,839)</u>

South Essex Insurance Group Limited

Notes to the Financial Statements

For the year ended 31st December 1996

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.

The investments in all subsidiaries have been revalued by the director at 31st December 1995 to allow for the current estimated market value.

A separate profit and loss account dealing solely with the results of the company has not been presented.

Depreciation

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

Freehold property	1% per annum
Long leasehold property	period of lease
Motor vehicles	4 years
Furniture, fittings and equipment	between 5 and 10 years

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

Assets held under foreign currencies are translated into sterling at the rates 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 1996 (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:

	1996	1995
Management	3	3
Administration	13	13
Clerical	53	55
Farm staff and grooms	3	5
Total employees	<u>72</u>	<u>76</u>

The aggregate payroll costs of these persons were as follows:

	1996	1995
	£	£
Wages and salaries	938,281	878,578
Social security costs	77,859	74,846
Pension contributions	<u>16,601</u>	<u>15,763</u>

Directors' emoluments:

	1996	1995
Remuneration	60,943	56,757
Other emoluments	<u>8,009</u>	<u>7,400</u>
	<u>68,952</u>	<u>64,157</u>

Chairman and highest paid director

68,952	64,157
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4 Interest Payable and Similar Charges

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

	1996	1995
	£	£
within five years	39,756	24,927
after five years	17,987	33,138
Finance lease and hire purchase interest	11,933	10,757
Other interest	<u>5,029</u>	<u>2,237</u>
	<u>74,705</u>	<u>71,059</u>

South Essex Insurance Group Limited
Notes to the Financial Statements
For the year ended 31st December 1996 (Continued)

5	Profit on Ordinary Activities before Taxation	1996 £	1995 £
	Profit on ordinary activities before taxation is stated after charging:		
	Auditors' remuneration and expenses	19,533	17,121
	Director's emoluments	68,952	64,157
	Depreciation:		
	Owned tangible fixed assets	88,582	69,916
	Assets held under finance leases	51,660	68,083
	Amortisation of goodwill	15,623	15,623
	Operating lease charges	-	50,104
	Loss on foreign exchange	9,311	-
	Profit on foreign exchange	-	5,082
		<u><u>-</u></u>	<u><u>5,082</u></u>
6	Taxation	1996 £	1995 £
	Taxation (charge)/credit based on the results for the year:		
	Corporation tax based on the results for the year at the rate of 25% (1995 - 25%)	<u><u>(30,694)</u></u>	<u><u>6,874</u></u>
7	Profit on Ordinary Activities after Taxation	1996 £	1995 £
	Dealt with in the accounts of the company	(19,643)	(23,386)
	Retained by group undertakings	<u>34,627</u>	<u>26,763</u>
		<u><u>14,984</u></u>	<u><u>3,377</u></u>

South Essex Insurance Group Limited
Notes to the Financial Statements
For the year ended 31st December 1996 (Continued)

8 Fixed Assets - Intangible

Goodwill	£
Cost	
At 1st January 1996 and at 31st December 1996	<u>234,351</u>
Amortisation	
At 1st January 1996	85,927
Charge for the year	<u>15,623</u>
At 31st December 1996	<u>101,550</u>
Net Book Value	
At 31st December 1996	<u><u>132,801</u></u>
At 31st December 1995	<u><u>148,424</u></u>

9 Fixed Assets - Tangible

Holding Company

	Furniture, Fittings and Equipment
Cost or valuation	£
At 1st January 1996	129,657
Additions	<u>7,765</u>
At 31st December 1996	<u>137,422</u>
Depreciation	
At 1st January 1996	49,459
Charged in year	<u>26,350</u>
At 31st December 1996	<u>75,809</u>
Net Book Value	
At 31st December 1996	<u><u>61,613</u></u>
At 31st December 1995	<u><u>80,198</u></u>

The net book value of the company's fixed assets includes an amount of £31,702 (1995 - £46,382) in respect of assets held under finance leases and hire purchase contracts.

South Essex Insurance Group Limited
Notes to the Financial Statements
For the year ended 31st December 1996 (Continued)

9 Fixed Assets - Tangible (Continued)

Group	Freehold Properties	Motor Vehicles	Fittings and Equipment	Total
Cost or valuation	£	£	£	£
At 1st January 1996	617,617	309,802	643,543	1,570,962
Prior Year Adjustment - Note 18	(75,000)	-	-	(75,000)
Additions	720	43,013	38,271	82,004
Disposals	(1,734)	(29,168)	-	(30,902)
At 31st December 1996	<u>541,603</u>	<u>323,647</u>	<u>681,814</u>	<u>1,547,064</u>
Depreciation				
At 1st January 1996	9,282	164,490	447,718	621,490
Charged in year	2,518	70,837	66,887	140,242
Disposals	(1,734)	(18,079)	-	(19,813)
At 31st December 1996	<u>10,066</u>	<u>217,248</u>	<u>514,605</u>	<u>741,919</u>
Net Book Value				
At 31st December 1996	<u>531,537</u>	<u>106,399</u>	<u>167,209</u>	<u>805,145</u>
At 31st December 1995	<u>608,335</u>	<u>145,312</u>	<u>195,825</u>	<u>949,472</u>

Freehold land is not depreciated.

The net book value of the group's fixed assets includes an amount of £90,818 (1995 - £176,372) in respect of assets held under finance leases and hire purchase contracts.

10 Fixed Assets - Investments

Holding Company

	Subordinated Loan to Group Undertakings	Shares in Group Undertakings	Total
Cost	£	£	£
At 1st January 1996	26,000	3,304,000	3,330,000
Addition in year	215,000	-	215,000
At 31st December 1996	<u>241,000</u>	<u>3,304,000</u>	<u>3,545,000</u>

The following details relate to the company's wholly owned subsidiary undertakings, all of which are incorporated and registered in England and Wales. 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 1996 (Continued)

10 Fixed Assets - Investments (Continued)			Shares in Unlisted Company
Group			
Cost			-
At 1st January 1996			4,000
Addition			<u>4,000</u>
At 31st December 1996			<u><u>4,000</u></u>
 11 Stocks	 1996	 1995	
	£	£	
Group			
Show horses and livestock - at valuation	122,500	127,500	
Farm crops and animal feed	<u>16,576</u>	<u>7,010</u>	
	<u><u>139,076</u></u>	<u><u>134,510</u></u>	
 12 Debtors	 1996	 1995	
	£	£	
Holding Company			
Amounts owed by group undertakings	218,730	26,521	
Other debtors	29,496	28,388	
Prepayments and accrued income	<u>1,456</u>	<u>1,465</u>	
	<u><u>249,682</u></u>	<u><u>56,374</u></u>	
Group			
Amount due from principals and insurance companies in respect of insurance transactions	1,332,176	1,018,657	
Trade debtors	16,589	17,620	
Other debtors	257,404	240,680	
Prepayments and accrued income	<u>61,952</u>	<u>53,061</u>	
	<u><u>1,668,121</u></u>	<u><u>1,330,018</u></u>	

South Essex Insurance Group Limited
Notes to the Financial Statements
For the year ended 31st December 1996 (Continued)

13 Creditors: Amounts falling due within one year	1996 £	1995 £
Holding Company		
Bank loans and overdraft	74,644	32,900
Amounts due to group undertakings	3,500	7,500
Obligations under finance leases	12,992	23,742
Accruals and deferred income	<u>22,596</u>	<u>28,233</u>
	<u>113,732</u>	<u>92,375</u>
Group		
Bank loans and overdrafts	302,958	141,919
Amounts due to principals and insurance companies in respect of insurance transactions	1,205,590	1,259,750
Trade creditors	378,431	183,107
Obligations under finance leases	52,206	81,148
Corporation tax	31,000	22,054
Other creditors including taxation and social security	34,806	31,595
Accruals and deferred income	<u>176,304</u>	<u>171,407</u>
	<u>2,181,295</u>	<u>1,890,980</u>

Other creditors includes an amount of £28,553 (1995 - £27,045) relating to taxation and social security.
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	1996 £	1995 £
Company		
Director's loan	110,000	110,000
Obligations under finance leases	<u>-</u>	<u>12,991</u>
	<u>110,000</u>	<u>122,991</u>
Group		
Bank loans	176,964	197,935
Director's loan	110,000	110,000
Obligations under finance leases	5,741	31,221
Pension scheme	<u>70,000</u>	<u>69,900</u>
	<u>362,705</u>	<u>409,056</u>
Bank loans repayable by instalments:		
between one and two years	29,935	19,435
between two and three years	89,805	58,303
after five years	<u>57,224</u>	<u>120,197</u>
	<u>176,964</u>	<u>197,935</u>

The bank loans totalling £83,454 (1995: £90,569) and £93,510 (1995: £Nil) 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 company's freehold properties.

South Essex Insurance Group Limited
Notes to the Financial Statements
For the year ended 31st December 1996 (Continued)

15 Shareholders' Funds

Company	Called up Share Capital £	Non Distributable Revaluation Reserve £	Profit and Loss Account £	Total £
Balance at 1st January 1996	1,000	2,800,000	450,206	3,251,206
Transfer from profit and loss account	-	-	195,357	195,357
Balance at 31st December 1996	<u>1,000</u>	<u>2,800,000</u>	<u>645,563</u>	<u>3,446,563</u>

Group	Called up Share Capital £	Revaluation Reserve £	Profit and Loss Account £	Total £
Balance at 1st January 1996	1,000	173,260	413,067	587,327
Transfer from profit and loss account	-	-	14,984	14,984
Transfer from revaluation reserve	-	(98,260)	98,260	-
Prior Year Adjustment - Note 18	-	(75,000)	-	(75,000)
Balance at 31st December 1996	<u>1,000</u>	<u>-</u>	<u>526,311</u>	<u>527,311</u>

The authorised share capital comprises:	1996 £	1995 £
Authorised:		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Called up share capital, allotted and fully paid:		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

16 Future Financial Commitments

Operating Leases

At 31st December 1996, the company had annual commitments under operating leases as set out below:

	1996 £	1995 £
Operating leases which expire:		
within one year	9,724	3,286
in the second to fifth years	<u>8,928</u>	<u>28,244</u>
	<u>18,652</u>	<u>31,530</u>

Finance Leases

At 31st December 1996, the company had obligations under finance leases and hire purchase contracts which are set out below:

	1996 £	1995 £
Gross amount payable:		
within one year	42,947	89,142
in the second to fifth years	<u>21,583</u>	<u>37,598</u>
	64,530	126,740
Deduct: Finance charges allocated to future periods	<u>(6,583)</u>	<u>(14,371)</u>
	<u>57,947</u>	<u>112,369</u>

South Essex Insurance Group Limited
Notes to the Financial Statements
For the year ended 31st December 1996 (Continued)

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 1996 the potential liability amounted to £479,922 (1995 - £339,854).

18 Prior Year Adjustment

In arriving at the valuation for a group undertakings freehold property as at 31st December 1995, the valuers incorrectly included within their valuation, a plot of land not belonging to the company.

This error was discovered when the freehold land and buildings were disposed of by the company in 1996, and subsequently adjusted in these accounts.