

**Deloitte &
Touche**

Deloitte Touche
Tohmatsu



Company Registration No. 00931954

SMART & COOK LIMITED

Report and Financial Statements

30 April 1998

**Deloitte & Touche
10-12 East Parade
Leeds
LS1 2AJ**





REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr G G Cook (Chairman)
Mr P C Meehan (Managing)
Mr G Brain
Mr P C Castle
Mr M I Gilroy
Mr J M Duncalf
Mr K Popplewell
Mr J H Wade
Mr J R Walton (Resigned 30 September 1997)
Mr J R Greenway
Mr D Hamilton (Appointed 31 July 1998)

SECRETARY

Mr A R McKenzie (Resigned 19 August 1998)
Mr P C Meehan (Appointed 19 August 1998)

REGISTERED OFFICE

4-6 Ripon Road
Harrogate
North Yorkshire
HG1 2HH

BANKERS

The Royal Bank of Scotland
7 Cambridge Crescent
Harrogate
HG1 1PH

SOLICITORS

Pinsent Curtis
41 Park Square
Leeds
LS1 2NS

AUDITORS

Deloitte & Touche
Chartered Accountants
10-12 East Parade
Leeds
LS1 2AJ



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 April 1998.

PRINCIPAL ACTIVITIES

The principal activity of the company during the year continued to be that of general insurance brokers.

REVIEW OF BUSINESS AND FUTURE PROSPECTS

The company has traded satisfactorily during the year. On 1 May 1998, as part of a group restructuring, the business and net assets of Greenway Smart & Cook Limited, Coates Smart & Cook Limited and Huntrods Smart & Cook Limited were transferred to the company.

PROFITS AND DIVIDENDS

The profit for the year after taxation amounted to £219,264 (1997: £266,588).

Dividends paid during the year amounted to £100,000 (1997: £100,000) leaving a profit of £119,264 (1997: £166,588) to be transferred to reserves.

ACQUISITION

On 1 January 1998 the company acquired the insurance broking business of Holt Park Insurance Brokers which will usefully increase the company's regular recurring annual income and consequently consolidate the operational base and future profitability.

Further details of the acquisition are given in note 8 to the accounts.

FIXED ASSETS AND FUTURE PROFITABILITY

Movements in fixed assets are set out in notes 8 to 10 to the accounts.

MARKET VALUE OF FREEHOLD PROPERTY

The directors are of the opinion that the market value of the freehold property is equal to the balance sheet value.

DIRECTORS

The directors who have served at any time since 1 May 1997 are shown on page 1.

"Directors & Officers" insurance cover has been maintained throughout the year.

DIRECTORS' INTERESTS

The directors of the company, their wives and children under 18 years of age, had no interests in the company at any time during the year. The interests of Mr G G Cook in the shares of the ultimate parent company are shown in that company's accounts. None of the other directors had interests in the shares of the ultimate parent company or any other group company.

YEAR 2000

The directors have considered the risks and uncertainties associated with the Year 2000 issue. A review has been initiated of the company's hardware and software and the company has held discussions with its major insurance providers. The key software systems have been upgraded in recent periods and assurances have been given by the suppliers that the systems are Year 2000 compliant. This review is ongoing and consequently the board are unable to quantify the financial effect of the Year 2000, although initial findings indicate that the financial impact on the company is unlikely to be material.



DIRECTORS' REPORT

AUDITORS

A resolution to reappoint Deloitte & Touche will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



P C Meehan

Secretary

22nd OCTOBER 1998

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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

SMART & COOK LIMITED

We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on pages 8 and 9.

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 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 the company's affairs as at 30 April 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants
and Registered Auditors

22 October 1998


PROFIT AND LOSS ACCOUNT
Year ended 30 April 1998

	Note	1998 £	1997 £
TURNOVER: continuing operations	2	2,068,674	1,852,943
Administrative expenses		1,758,512	1,540,051
		<u>310,162</u>	<u>312,892</u>
Other operating income		<u>31,000</u>	<u>25,000</u>
OPERATING PROFIT: continuing operations	4	341,162	337,892
Interest receivable and similar income		37,638	28,749
Interest payable and similar charges	5	<u>(54,072)</u>	<u>(43,206)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		324,728	323,435
Tax on profit on ordinary activities	6	<u>105,464</u>	<u>56,847</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		219,264	266,588
Dividends paid	7	<u>(100,000)</u>	<u>(100,000)</u>
Retained profit for the financial year	16,17	<u><u>119,264</u></u>	<u><u>166,588</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses for the current financial year and preceding financial period other than as stated in the profit and loss account.


**BALANCE SHEET
30 April 1998**

	Note	1998 £	1997 £
FIXED ASSETS			
Intangible assets	8	352,477	210,104
Tangible assets	9	1,031,958	738,408
Investments	10	406,291	416,140
		<u>1,790,726</u>	<u>1,364,652</u>
CURRENT ASSETS			
Debtors	11	2,911,279	2,751,366
Cash at bank and in hand	12	687,090	200,265
		<u>3,598,369</u>	<u>2,951,631</u>
CREDITORS: amounts falling due within one year	13	<u>3,619,145</u>	<u>2,810,193</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(20,776)</u>	<u>141,438</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,769,950	1,506,090
CREDITORS: amounts falling due after more than one year	14	<u>1,006,379</u>	<u>861,783</u>
		<u>763,571</u>	<u>644,307</u>
CAPITAL AND RESERVES			
Called up share capital	15	500	500
Revaluation reserve	16	203,422	203,422
Profit and loss account	16	559,649	440,385
EQUITY SHAREHOLDERS' FUNDS AND TOTAL SHAREHOLDERS' FUNDS		<u>763,571</u>	<u>644,307</u>

These financial statements were approved by the Board of Directors on *22nd October* 1998.

Signed on behalf of the Board of Directors

G.G. Cook

Director

**NOTES TO THE ACCOUNTS****Year ended 30 April 1998****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of freehold properties.

Intangible fixed assets

Goodwill is amortised through the profit and loss account in equal instalments over twenty years being the period over which benefit is expected to be derived.

Tangible fixed assets

No depreciation is provided on freehold buildings as they are maintained regularly to a high standard and are frequently revalued. Accordingly, the expected useful lives and residual values of the buildings are such that no material depreciation charge would arise.

Depreciation on other fixed assets has been provided as follows:

Leasehold property	over the term of the lease
Computer equipment	20% Straight line basis
Fixtures, fittings and office equipment	15% Reducing balance basis
Motor vehicles	25% Reducing balance basis

Contributions to pension scheme

The company operates a contributory pension scheme on a defined contribution basis, the net cost of which is charged against the profits of the company in the account year in which the expenditure is incurred.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounts and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair value on the inception of the contract and depreciated over their estimated useful lives. The finance charges are allocated over the period of the contract in proportion to the capital amount outstanding.

Turnover

Turnover represents commissions and fees earned in the period net of discounts and allowances and is accounted for as earned when invoiced. Charges made to clients taking advantage of instalment credit facilities are recognised when made.

Investments

Investments are stated at cost less provision for permanent diminution in value.

Claims servicing costs

Claims servicing costs are expensed in the period incurred.


NOTES TO THE ACCOUNTS
Year ended 30 April 1998
1. ACCOUNTING POLICIES (continued)
Insurance broking assets and liabilities

The company acts as an agent in broking the insurable risks for 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 premium 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.

2. TURNOVER

There are no segments of the business which are substantially different from each other. Turnover is wholly attributable to operations within the UK.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £	1997 £
Directors' remuneration		
Emoluments inclusive of benefits in kind	593,877	576,309
Pension contributions	54,146	43,764
Compensation for loss of office	22,200	-
	<u>670,223</u>	<u>620,073</u>
	£	£
Emoluments of highest paid director	111,593	94,262
Pension contributions of highest paid director	15,000	15,000
	<u></u>	<u></u>
	No	No
The number of directors for whom the company has made pension contributions	<u>9</u>	<u>9</u>
	£	£
Average number of persons employed	<u>58</u>	<u>51</u>
	£	£
Staff costs during the year (including directors, excluding benefits in kind)		
Wages and salaries	1,091,690	987,177
Social security costs	113,039	103,681
Pension costs	73,680	58,923
	<u>1,278,409</u>	<u>1,149,781</u>


NOTES TO THE ACCOUNTS
Year ended 30 April 1998
4. OPERATING PROFIT

	1998 £	1997 £
Operating profit is after charging:		
Depreciation		
Owned assets	38,073	26,745
Leased assets	51,702	32,498
Profit on sale of fixed assets	5,051	(13,379)
Rentals payable under operating leases		
Building	31,500	31,500
Other	9,419	10,733
Amortisation of intangible fixed assets	21,753	12,988
Auditors' remuneration	13,164	10,684
	<u> </u>	<u> </u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
Bank loans, overdrafts and other loans repayable in part within five years	-	55
Bank loans, overdrafts and other loans repayable after more than five years	38,756	32,249
Hire purchase contracts	15,316	10,902
	<u>54,072</u>	<u>43,206</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
United Kingdom corporation tax based on the profit for the year	105,464	60,447
Adjustment to prior years' tax provision:		
Corporation tax	-	(3,600)
	<u>105,464</u>	<u>56,847</u>

The corporation tax based on the profit for the year has been calculated at the rate of 31% (1997: 33%)

7. DIVIDENDS PAID

	1998 £	1997 £
Dividends paid on ordinary shares	<u>100,000</u>	<u>100,000</u>



NOTES TO THE ACCOUNTS

Year ended 30 April 1998

8. INTANGIBLE FIXED ASSETS

	Goodwill
	£
Cost	
At 1 May 1997	263,780
Additions	157,414
Adjustments	6,712
At 30 April 1998	<u>427,906</u>
Accumulated amortisation	
At 1 May 1997	53,676
Charge for the year	21,753
At 30 April 1998	<u>75,429</u>
Net book value	
At 30 April 1998	<u>352,477</u>
At 30 April 1997	<u>210,104</u>

Additions and Adjustments to Goodwill

In the year the company acquired the insurance broking business of Holt Park Insurance Brokers for £162,696. This resulted in an addition to goodwill of £157,414.

The following table explains the calculation of goodwill:

	£
Consideration (including legal expenses)	163,949
Tangible fixed assets at fair values to the company	(40,975)
Hire purchase contracts	34,440
	<u>157,414</u>

The results of Holt Park Insurance Brokers prior to acquisition are not available as accounts were not produced at the time of acquisition. The acquired business was merged into the company's other business activities immediately following acquisition. It is not possible to separately identify the contributions of the acquired business to the results for the year.

The acquisition of J R Walton, J H Wade & Co, Ian De Courcey Bayley and Holt Park Insurance Brokers comprised both fixed and variable elements of deferred consideration, dependent on the subsequent performances of the businesses. The performance of J R Walton, J H Wade & Co and Ian De Courcey in the current year has resulted in adjustments to the estimated deferred consideration and to the goodwill on acquisition.



NOTES TO THE ACCOUNTS

Year ended 30 April 1998

9. TANGIBLE FIXED ASSETS

	Freehold property £	Short leasehold property £	Computer equipment £	Fixtures, fittings and office equipment £	Motor vehicles £	Total £
Cost or valuation						
At 1 May 1997	460,000	11,790	52,204	180,140	270,809	974,943
Additions	15,112	95,123	121,339	20,038	208,147	459,759
Disposals	-	-	-	-	(145,873)	(145,873)
At 30 April 1998	475,112	106,913	173,543	200,178	333,083	1,288,829
Depreciation						
At 1 May 1997	-	621	46,525	115,076	74,313	236,535
Charge for the year	-	4,527	8,181	11,186	65,881	89,775
On disposals	-	-	-	-	(69,439)	(69,439)
At 30 April 1998	-	5,148	54,706	126,262	70,755	256,871
Net book value						
At 30 April 1998	475,112	101,765	118,837	73,916	262,328	1,031,958
At 30 April 1997	460,000	11,169	5,679	65,064	196,496	738,408

The freehold property was revalued in October 1995. The valuation of the property accords with the value in the balance sheet. All other assets are stated at cost.

If stated under the historical cost convention the freehold property would be as follows:

	1998
	£
Cost and net book value	271,690

The net book value of the company's assets includes the following amounts in respect of assets held under hire purchase contracts: Motor vehicles - £249,670 (1997: £182,768); Office equipment - £3,733 (1997: £Nil)



NOTES TO THE ACCOUNTS

Year ended 30 April 1998

10. INVESTMENTS

	Subsidiaries £	Unquoted £	Total £
At 1 May 1997	412,955	3,185	416,140
Additions	-	2,402	2,402
Adjustments	(12,251)	-	(12,251)
At 30 April 1998	<u>400,704</u>	<u>5,587</u>	<u>406,291</u>

The acquisition of Huntrods, Haydon & Rose Limited, renamed Huntrods Smart & Cook Limited, comprised both fixed and variable elements of deferred consideration, dependent upon the subsequent performance of the business. The performance in the year resulted in an adjustment to the cost of the investment.

The subsidiary undertakings included above are:

	Principal activity	Country of incorporation and registration	Shares class	Held %
Coates Smart & Cook Limited	Insurance & Broking Consulting	England and Wales	Ordinary	100
Huntrods Smart & Cook Limited	Insurance & Broking Consulting	England and Wales	Ordinary	100

In the opinion of the directors' the value of the shares in Coates Smart & Cook Limited and in Huntrods Smart & Cook Limited is not less than that stated in the balance sheet of the company.

On 4 April 1997 the company purchased 16.67% of the share capital of The Broker Alliance Limited. During the year ended 30 April 1998 the company increased its stake to 20%. The directors believe that it is inappropriate to equity account for this investment on the grounds that they do not significantly influence the operation of that company, that it is likely that in the short term that the stake will be reduced below 20% as a result of the introduction of additional shareholders and that the company is essentially non-profit making.

11. DEBTORS

	1998 £	1997 £
Trade debtors : Insurance broking account	2,178,005	2,021,842
Amounts owed by parent companies	623,000	564,500
Amounts owed by fellow subsidiary undertakings	20,677	87,183
Other debtors	51,193	16,862
Prepayments and accrued income	38,404	60,979
	<u>2,911,279</u>	<u>2,751,366</u>



NOTES TO THE ACCOUNTS
Year ended 30 April 1998

12. CASH AT BANK AND IN HAND

	1998 £	1997 £
Insurance broking account:		
Deposit accounts	977,716	721,837
Bank overdraft	(290,826)	(521,772)
	<hr/> 686,890	<hr/> 200,065
Cash in hand	200	200
	<hr/> <hr/> 687,090	<hr/> <hr/> 200,265

The presentation of cash at bank and bank overdraft in note 13 reflects the commercial arrangements the company has with its bankers.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Bank overdrafts:		
Office account (see below)	72,288	43,242
Bank loan	56,206	14,500
Trade creditors :		
Insurance broking account	2,841,007	2,187,182
Other	16,796	28,162
	<hr/> 2,857,803	<hr/> 2,215,344
Obligations under hire purchase agreements	102,263	67,737
Amounts owed to ultimate parent company	184,764	216,509
Amounts owed to fellow subsidiary undertaking	86,936	69,859
Current corporation tax	122,161	78,687
Other taxes and social security	48,030	40,989
Other creditors	66,620	47,536
Accruals	22,074	15,790
	<hr/> <hr/> 3,619,145	<hr/> <hr/> 2,810,193

Office bank overdraft and the bank loan are secured by means of a legal charge over the company's freehold property, and a debenture against the company.



NOTES TO THE ACCOUNTS

Year ended 30 April 1998

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £	1997 £
Bank loans		
between 1 and 2 years	56,706	15,000
between 2 and 5 years	159,421	48,000
after 5 years	230,768	340,081
Obligations under hire purchase agreements	133,676	90,795
Amount owed to parent company	300,000	300,000
Other creditors		
between 1 and 2 years	61,984	21,707
between 2 and 5 years	63,824	46,200
	<u>1,006,379</u>	<u>861,783</u>

The bank loan is repayable by monthly instalments (including interest) of £5,248. Interest is charged at 1½% above the Royal Bank of Scotland base rate for the first £300,000 and 2% above the Royal Bank of Scotland base rate thereafter.

£119,915 (1997: £37,944) of obligations under hire purchase contracts for the current year are payable between 1 and 2 years. The remainder is payable between 2 and 5 years

The amount owed to parent company is interest free and repayable in full or in part on 37 months' notice on a rolling basis.

Other creditors above and in note 13 include amounts totalling £Nil (1997 : £7,235) due to J H Wade, £Nil (1997 : £3,841) due to J R Walton, £56,559 (1997: £87,812) due to G S Huntrods and £Nil (1997 : £1,000) due to Ian De-Courcey Bayley under the terms of the respective purchase agreements of these businesses.

15. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Called up, allotted and fully paid		
500 ordinary shares of £1 each	<u>500</u>	<u>500</u>

16. STATEMENT OF MOVEMENTS ON RESERVES

	Profit and loss account £	Revaluation reserve £	1998 Total £
At 1 May 1997	440,385	203,422	643,807
Profit for the year	119,264	-	119,264
At 30 April 1998	<u>559,649</u>	<u>203,422</u>	<u>763,071</u>



NOTES TO THE ACCOUNTS

Year ended 30 April 1998

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit for the financial year	219,264	266,588
Dividends	(100,000)	(100,000)
Net addition to shareholders' funds	119,264	166,588
Opening shareholders' funds	644,307	477,719
Closing shareholders' funds	<u>763,571</u>	<u>644,307</u>

18. CONTINGENT LIABILITIES

The company has guaranteed the bank borrowings of its subsidiary companies. The total of the indebtedness guaranteed amounted to £Nil at 30 April 1998 (1997: £8,735).

19. OPERATING LEASE COMMITMENTS

Operating lease commitments

At 30 April 1998, the company was committed to make the following payments during the next year in respect of operating leases:

	Other £
Lease which expire:	
Within two to five years	<u>14,267</u>

20. RELATED PARTY TRANSACTIONS

During the year Smart & Cook Limited leased the property situated at 6 Ripon Road, Harrogate, at a rental of £31,500 from Smart & Cook Limited Directors Pension Scheme. No liability related to the transaction at the year end.

The company has taken advantage of the exemption contained in FRS 8 not to disclose transactions with other group companies as it is a wholly owned subsidiary.

21. GROUP ACCOUNTS

The company is exempt from the obligation to prepare group accounts under S228 Companies Act 1985 since it is the wholly owned subsidiary of Smart & Cook Group Limited, a company incorporated in Great Britain and registered in England and Wales. Smart & Cook Group Limited prepare consolidated accounts which can be obtained from the Registrar of Companies, Companies House, 3 Crown Way, Maindy, Cardiff CF4 3UZ.

22. ULTIMATE PARENT COMPANY

The ultimate parent company is Thornton Grove (Holdings) Limited, a company incorporated in Great Britain and registered in England and Wales. Copies of the accounts of Thornton Grove (Holdings) Limited can be obtained from the Registrar of Companies, Companies House, 3 Crown Way, Maindy, Cardiff CF4 3UZ.