

Arthur J. Gallagher (UK) Limited

Report and Accounts

31 December 2002



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DIRECTORS

D E McGurn	(USA) (Chairman)
B A King	
G M Cavazzi	
W J Bushell	
J Patrick Gallagher	(USA)
J D Stancik	(USA)
J A Leslie	
P A Nastri	
J E Sparkes	
K J Hubbard	
D J R Sibree	
D C Ross	
A Wham	
G Barden	(Resigned 31 March 2003)
D Merry	
P Greig	(Appointed 1 April 2003)

SECRETARY

G M Cavazzi

AUDITORS

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

Barclays Bank PLC
54 Lombard Street
London
EC3V 9EX

SOLICITORS

Clyde & Co.
51 Eastcheap
London
EC3M 1JP

REGISTERED OFFICE

9 Alie Street
London
E1 8DE

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2002.

STATEMENT OF DIRECTORS' RESPONSIBILITIES WITH RESPECT TO THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, 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, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Group's principal activities continue to be that of insurance and reinsurance broking. The directors aim to continue to extend the servicing capabilities of the Company through the acquisition of professional businesses and personnel.

The results of Morgan Read & Sharman Ltd, the principal trading subsidiary of the Company, for the year ended 31 December 2002 was a profit before tax of £508,741 (2001: loss £1,712,144). The results of the Group's joint venture, Risk Management Partners Ltd, are discussed in detail in Note 11.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2002 are set out in the accounts on pages 6 to 20. The retained profit for the year of £2,879,706 (2001: £2,488,303) was transferred to reserves. An interim dividend of £1,379,310 was paid during the year (2001: £ nil), the directors do not recommend the payment of a final dividend (2001: £ nil).

DIRECTORS AND THEIR INTERESTS

The directors serving during the year ended 31 December 2002 are shown on page 2. No director had any interest in the shares of the Company. The interests of the directors in the shares of the ultimate holding company, Arthur J Gallagher & Co. are not required to be disclosed in this report.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the Company made charitable contributions totalling £9,693 (2001: £6,194)

REPORT OF THE DIRECTORS

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board.

A handwritten signature in black ink, appearing to read 'P.A. Nasti', is written over the printed name.

P.A. Nasti
Director
5 August 2003

INDEPENDENT AUDITOR'S REPORT
to the members of Arthur J Gallagher (UK) Limited

We have audited the group's financial statements for the year ended 31 December 2002 which comprise Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Total Recognised Gains and Losses, and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

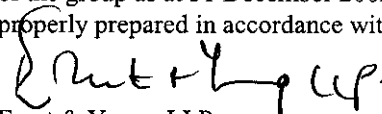
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 group'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 31 December 2002 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
London

August 6 2003

Arthur J. Gallagher (UK) Limited

GROUP PROFIT & LOSS ACCOUNT for the year ended 31 December 2002 (In Pounds Sterling)

	Notes	2002	2001
TURNOVER	2	39,445,693	24,376,638
Other operating income	3	1,321,788	2,510,281
Other operating charges		(37,332,092)	(24,672,452)
Share of after tax profits of associated undertakings	11	816,510	597,028
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	4,251,899	2,811,495
Tax on profit on ordinary activities	7	(1,378,000)	(296,916)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,873,899	2,514,579
Minority Interests		5,807	(26,276)
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE MEMBERS OF THE COMPANY		2,879,706	2,488,303
Dividends		(1,379,310)	-
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>1,500,396</u>	<u>2,488,303</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002	2001
Profit for the financial year attributable to shareholders	2,879,706	2,488,303
Exchange differences on retranslation of net assets of subsidiary undertaking	(36,810)	-
Total recognised gains and losses relating to the year	<u>2,842,896</u>	<u>2,488,303</u>

Arthur J. Gallagher (UK) Limited

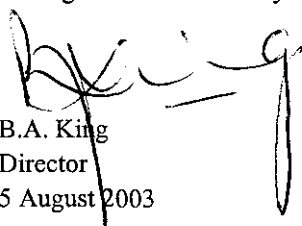
GROUP BALANCE SHEET

as at 31 December 2002

(In Pounds Sterling)

	Notes	2002	2001
FIXED ASSETS			
Intangible assets	9	8,476,399	7,851,644
Tangible assets	10	4,681,864	3,399,088
Investments	11	1,283,007	466,497
		14,441,270	11,717,229
CURRENT ASSETS			
Debtors	12	172,729,356	55,676,352
Cash at bank and in hand		69,076,806	57,014,752
		241,806,162	112,691,104
CREDITORS: Amounts falling due within one year	13	(233,503,391)	(102,777,275)
NET CURRENT ASSETS		8,302,771	9,913,829
TOTAL ASSETS LESS CURRENT LIABILITIES		22,744,041	21,631,058
PROVISIONS FOR LIABILITIES AND CHARGES	14	(651,511)	(1,099,812)
MINORITY INTERESTS		(139,806)	(42,108)
		21,952,724	20,489,138
CAPITAL AND RESERVES			
Called up shared capital	16	5,000,000	5,000,000
Share premium account		3,605,994	3,605,994
Profit and loss account		13,346,730	11,883,144
	16	21,952,724	20,489,138

Approved by the board
and signed on its behalf by:


B.A. King
Director
5 August 2003

Arthur J. Gallagher (UK) Limited

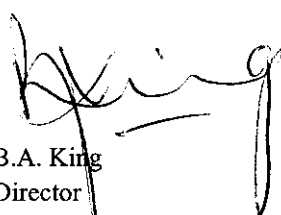
COMPANY BALANCE SHEET

as at 31 December 2002

(In Pounds Sterling)

	Notes	2002	2001
FIXED ASSETS			
Intangible assets	9	2,259,202	1,097,500
Tangible Assets	10	4,569,804	3,309,412
Investments	11	9,152,296	8,551,093
		15,981,302	12,958,005
CURRENT ASSETS			
Debtors	12	169,858,225	54,714,834
Cash at bank and in hand		66,056,117	55,046,107
		235,914,342	109,760,941
CREDITORS: Amounts falling due within one year	13	(230,339,273)	(101,552,572)
NET CURRENT ASSETS		5,575,069	8,208,369
TOTAL ASSETS LESS CURRENT LIABILITIES		21,556,371	21,166,374
PROVISIONS FOR LIABILITIES AND CHARGES	14	(651,511)	(1,099,812)
		20,904,860	20,066,562
CAPITAL AND RESERVES			
Called up share capital	16	5,000,000	5,000,000
Share premium account		3,605,994	3,605,994
Profit and loss account		12,298,866	11,460,568
	16	20,904,860	20,066,562

Approved by the board on
and signed on its behalf by:


B.A. King
Director
5 August 2003

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2002

(In Pounds Sterling)

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared on the going concern basis under the historical cost convention and comply with accounting standards applicable in the United Kingdom. As permitted by Financial Reporting Standard 1 (revised) the Company, being a wholly owned subsidiary of another company, is not required to prepare a cash flow statement.

Basis of consolidation

The group accounts consolidate the accounts of Arthur J. Gallagher (UK) Limited and all its subsidiary and joint venture undertakings drawn up to 31 December each year. No profit and loss account is presented for the company as permitted by section 230 of the Companies Act 1985.

The acquisition method of accounting is used for the inclusion of all subsidiary undertakings into the group accounts. Consequently, the group accounts include the appropriate share of these undertakings' results from the date of acquisition.

Joint venture undertakings are treated using the equity method of accounting. The group accounts include the appropriate share of these undertakings' results and reserves based on audited accounts to 31 December 2002.

Revenue recognition

Turnover comprises net retained brokerage and investment income. Brokerage is included in revenue at the later of inception date or the date annual premiums or treaty reinsurance declarations are processed. For business billed on an instalment basis, brokerage is included in revenue on the due date of the instalment. Investment income is included in revenue when payable to the Company.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life as shown below. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Amortisation is provided on all intangible assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Expiration lists	-	over 5 years
Purchased goodwill	-	over 20 years

See note 8 for additional information.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold property	-	to lease expiration
Furniture and equipment	-	over 10 years
Computer equipment and software	-	over 3 years or 10 years
Motor vehicles	-	over 5 years

Change in Accounting Policy

From the 1st January 2002, the company has adopted the new Financial Reporting Standard (FRS) 19 'Deferred Tax' which requires full provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the accounts and their recognition in the tax computation. This change in accounting policy has no impact on the current year or comparative amounts.

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2002

(In Pounds Sterling)

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

Provision is made at current rates for taxation. In accordance with FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All rate of exchange differences are taken to the profit and loss account.

From 1 January 2002 net assets brought forward of overseas subsidiary undertakings have been translated at rates of exchange ruling at the balance sheet date and resulting exchange differences taken directly to the statement of total recognised gains and losses.

In prior years these amounts were taken through the profit and loss account. No adjustment has been made to prior year figures in respect of this change as the amounts involved are deemed immaterial.

Pensions

All group employees may become members of the Gallagher (UK) Pension Plan, a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. On the acquisition of MRS Holdings Ltd and Morgan Read & Sharman Ltd, the defined benefit scheme operated by those companies with Lloyds' Superannuation Fund terminated. The staff transferred to the Gallagher (UK) Pension Plan or stayed with only a frozen deferred benefit.

Insurance broking debtors and creditors

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers. As such they are generally not liable as principals for the amounts arising from these transactions. Notwithstanding these legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities. This recognises that the insurance broker is entitled to retain the investment income on any cash flows arising from these transactions.

Debtors and creditors arising from a transaction between client and insurers (e.g. premiums, claims etc) are recorded simultaneously. Consequently, there is a high level of correlation between the totals reported in respect of insurance broking debtors and creditors.

The position of the insurance broker as agent means that generally the credit risk is borne by the principals. However there may be circumstances where the insurance broker acquires credit risk, through statute, or through the act or omission of the insurance broker or one of the principals. There is much legal uncertainty surrounding the circumstances and the extent of such exposure which, consequently, cannot be evaluated. The total of insurance broking debtors and creditors appearing in the balance sheet is therefore not an indication of credit risk.

It is normal practice for insurance brokers to settle accounts with other intermediaries, clients, insurers and market settlement bureaux on a net basis. Thus, large changes in insurance broking debtors and creditors can result from comparatively small cash settlements. For this reason, the totals of insurance broking debtors and creditors give no indication of future cash flows.

The legal status of this practice of net settlement is uncertain and in the event of an insolvency it is generally abandoned. Financial Reporting Standard 5, 'Reporting the substance of transactions', requires that offset of assets and liabilities should be recognised in financial statements where, and only where, the offset would survive the insolvency of the other party. Accordingly, only such offsets have been recognised in calculating insurance broking debtors and creditors.

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2002

(In Pounds Sterling)

2. TURNOVER

Turnover is attributable to insurance broking. An analysis by geographical market is given below:

	2002	2001
United Kingdom and Europe	16,865,153	10,034,320
North America	15,780,271	10,825,681
Other Countries	6,800,269	3,516,637
	<u>39,445,693</u>	<u>24,376,638</u>

3. OTHER OPERATING INCOME

	2002	2001
Investment income	1,307,104	2,321,624
Profit/(Loss) on sale of fixed assets	(199,333)	23,256
Other Income	214,017	165,131
	<u>1,321,788</u>	<u>2,510,281</u>

4. OPERATING PROFIT

This is stated after charging/(crediting):

	2002	2001
Staff costs (note 6)	22,600,423	15,901,286
Auditors' remuneration	64,643	61,083
Amortisation of intangible assets	1,534,547	468,893
Depreciation of fixed assets	892,358	722,851
Operating lease rentals	1,429,169	1,268,415
Provision for doubtful debts	(23,000)	(53,748)
Profit on foreign exchange	922,732	(220,948)

5. DIRECTORS' REMUNERATION AND LOANS

	2002	2001
Emoluments	<u>3,107,240</u>	<u>1,833,256</u>
Company contributions paid to money purchase schemes	<u>264,890</u>	<u>135,887</u>
Members of money purchase schemes	<u>13</u>	<u>11</u>
The amounts in respect of the highest paid director are:		
Emoluments	<u>508,546</u>	<u>264,505</u>
Company contributions paid to money purchase schemes	<u>44,167</u>	<u>16,271</u>

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2002

(In Pounds Sterling)

6. STAFF COSTS

	2002	2001
Salaries	18,031,570	12,318,512
Social security costs	2,582,287	1,637,518
Other pension costs	1,986,566	1,945,256
	<u>22,600,423</u>	<u>15,901,286</u>

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

	2002	2001
Broking and technical	253	252
Administration	60	59
	<u>313</u>	<u>311</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002	2001
The charge for taxation comprises:		
Current tax charge for the period	1,180,000	972,371
Prior year adjustments	-	(448,105)
Deferred taxation	198,000	(227,350)
Tax on profit on ordinary activities	<u>1,378,000</u>	<u>296,916</u>

Effective Tax Rate

The tax rate is higher than the standard 30% UK rate for the reasons given below:

Profit on ordinary activities before tax	4,251,899	2,811,495
Result of joint venture accounted on equity basis	(816,510)	(597,030)
Profit on ordinary activities before tax	<u>3,435,389</u>	<u>2,214,465</u>
Corporation tax at standard rate of 30% (2001: 30%)	1,030,617	664,340
Utilisation of losses brought forward	(152,622)	-
Non-taxable goodwill amortisation	172,344	17,999
Deferred taxation	(198,000)	227,350
Other disallowed expenses	327,661	62,283
Current tax charge for the period	<u>1,180,000</u>	<u>972,371</u>

8. PROFIT ATTRIBUTABLE TO THE MEMBERS OF THE PARENT COMPANY

The profit attributable to the members of the parent company is £2,217,608 (2001: £2,712,376).

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2002

(In Pounds Sterling)

9. INTANGIBLE FIXED ASSETS

Group	Expiration Lists	Goodwill	Total
Cost:			
At 1 January 2002	1,350,000	6,814,139	8,164,139
Additions during the year	2,121,768	37,534	2,159,302
Disposals during the year	-	-	-
At 31 December 2002	<u>3,471,768</u>	<u>6,851,673</u>	<u>10,323,441</u>
Amortisation:			
At 1 January 2002	(252,500)	(59,995)	(312,495)
Charge for the year	(960,066)	(574,481)	(1,534,547)
Disposal during the year	-	-	-
At 31 December 2002	<u>(1,212,566)</u>	<u>(634,476)</u>	<u>(1,847,042)</u>
Net book value:			
At 31 December 2002	<u>2,259,202</u>	<u>6,217,197</u>	<u>8,476,399</u>
At 1 January 2002	<u>1,097,500</u>	<u>6,754,144</u>	<u>7,851,644</u>
Company	Expiration Lists	Total	
Cost:			
At 1 January 2002	1,350,000	1,350,000	
Additions during the year	2,121,768	2,121,768	
Disposals during the year	-	-	
At 31 December 2002	<u>3,471,768</u>	<u>3,471,768</u>	
Amortisation:			
At 1 January 2002	(252,500)	(252,500)	
Charge for the year	(960,066)	(960,066)	
Disposals during the year	-	-	
At 31 December 2002	<u>(1,212,566)</u>	<u>(1,212,566)</u>	
Net book value:			
At 31 December 2002	<u>2,259,202</u>	<u>2,259,202</u>	
At 1 January 2002	<u>1,097,500</u>	<u>1,097,500</u>	

Expiration lists represent payments contracted to teams and individuals joining the Company. They are amortised on a straight-line basis over 5 years starting on joining.

Goodwill represents the difference between the purchase cost and the net assets acquired in the subsidiaries MRS Holdings Ltd, Morgan Read & Sharman Ltd and Arthur J Gallagher Asia Pte Ltd. It is being written off over 20 years from date of purchase or initial investment.

Within the goodwill amortisation charge for the year of £574,481 (2001: £59,254) is £232,529 (2001: £nil) relating to the impairment review carried out in accordance with FRS 10 on the company's investment in Morgan Read & Sharman Ltd.

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2002

(In Pounds Sterling)

10. TANGIBLE FIXED ASSETS

	Computers & Software	Leasehold Property	Furniture & Equipment	Motor Vehicles	Total
Group					
Cost or valuation:					
At 1 January 2002	2,177,492	1,590,094	896,647	1,556,839	6,221,072
Asset Reclassification	(19,401)	(2)	53,818	-	34,415
Additions	669,055	1,069,308	489,353	312,690	2,540,406
Disposals	(3,347)	(239,684)	(391,854)	(418,270)	(1,053,155)
At 31 December 2002	<u>2,823,799</u>	<u>2,419,716</u>	<u>1,047,964</u>	<u>1,451,259</u>	<u>7,742,738</u>
Depreciation:					
At 1 January 2002	1,336,108	419,916	503,907	562,053	2,821,984
Asset Reclassification	(3,807)	1	38,222	-	34,416
Charge for the year	318,869	202,520	72,179	298,790	892,358
Disposals	(762)	(74,016)	(337,053)	(276,053)	(687,884)
At 31 December 2002	<u>1,650,408</u>	<u>548,421</u>	<u>277,255</u>	<u>584,790</u>	<u>3,060,874</u>
Net book value:					
At 31 December 2002	<u>1,173,391</u>	<u>1,871,295</u>	<u>770,709</u>	<u>866,469</u>	<u>4,681,864</u>
At 1 January 2002	<u>841,384</u>	<u>1,170,178</u>	<u>392,740</u>	<u>994,786</u>	<u>3,399,088</u>
Company					
Cost or valuation:					
At 1 January 2002	2,111,184	1,564,290	948,599	1,506,111	6,130,184
Additions	649,500	1,025,954	489,353	312,690	2,477,497
Disposals	(2,098)	(233,163)	(390,062)	(418,270)	(1,043,593)
At 31 December 2002	<u>2,758,586</u>	<u>2,357,081</u>	<u>1,047,890</u>	<u>1,400,531</u>	<u>7,564,088</u>
Depreciation:					
At 1 January 2002	1,316,536	413,697	541,196	549,343	2,820,772
Charge for the year	301,376	194,550	71,642	289,023	856,591
Disposals	(1)	(71,406)	(335,619)	(276,053)	(683,079)
At 31 December 2002	<u>1,617,911</u>	<u>536,841</u>	<u>277,219</u>	<u>562,313</u>	<u>2,994,284</u>
Net book value:					
At 31 December 2002	<u>1,140,675</u>	<u>1,820,240</u>	<u>770,671</u>	<u>838,218</u>	<u>4,569,804</u>
At 1 January 2002	<u>794,648</u>	<u>1,150,593</u>	<u>407,403</u>	<u>956,768</u>	<u>3,309,412</u>

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2002

(In Pounds Sterling)

11. INVESTMENTS

Group

	2002	2001
Joint venture	1,171,510	355,000
Other investments	111,497	111,497
	<u>1,283,007</u>	<u>466,497</u>

The Group has a 50% share in a joint venture, Risk Management Partners Ltd (RMP).

The summarised Group's share of the results of this entity are:

	2002	2001
Turnover	<u>1,994,383</u>	<u>1,626,393</u>
Profit for the financial year	816,510	597,028
Dividend	-	(1,000,000)
Movement on reserves	<u>816,510</u>	<u>(402,972)</u>

The Group's profit for the financial year in RMP is included within share of after tax profits of associated undertakings.

The summarised Group's share of the net assets of this entity are:

	2002	2001
Total assets	1,520,076	652,607
Total liabilities	<u>(348,566)</u>	<u>(297,607)</u>
Net assets	<u>1,171,510</u>	<u>355,000</u>

The Group's share of retained profits in RMP amounted to £1,161,510 at 31 December 2002 (2001: £345,000) and is included within net current assets.

Company

	Other investments	Subsidiary undertakings	Joint venture	Total
Cost:				
At 1 January 2002	111,497	8,429,596	10,000	8,551,093
Additions	-	601,203	-	601,203
At 31 December 2002	<u>111,497</u>	<u>9,030,799</u>	<u>10,000</u>	<u>9,152,296</u>

All investments in subsidiaries are stated at cost less any permanent diminution in value.

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11. Investments (continued):

Details of the investments in which the Group or the Company holds more than 10% of the nominal value of any class of share capital are as follows (all held by the Company unless indicated):

Name of company	Country of registration (or incorporation) and operation	Holding	Proportion of voting rights and shares held	Nature of Business
Subsidiary undertakings				
Morgan Insurance Services Limited	England & Wales	Ordinary	100%	Dormant
John Plumer & Company Limited	England & Wales	Ordinary	100%	Dormant
Arthur J. Gallagher Asia Pte Limited	Singapore	Ordinary	51%	Insurance Broking
Arthur J. Gallagher Asia Limited	Hong Kong	Ordinary	100%	Insurance Broking
MRS Holdings Limited	England & Wales	Ordinary	100%	Dormant
Morgan Read & Sharman Limited	England & Wales	Ordinary	100%	Insurance Broking
Associated undertakings				
Risk Management Partners Limited	England & Wales	Ordinary	50%	Risk Management
Other investments				
Marine, Aviation & General (London) Limited	England & Wales	Ordinary	20%	Insurance Broker

12. DEBTORS

	Group		Company	
	2002	2001	2002	2001
Insurance debtors	170,019,553	53,299,736	168,913,615	53,951,701
Amounts owed by subsidiary undertakings	602,798	-	658,754	38,496
Amounts owed by associated undertakings	45,989	48,154	45,989	48,154
Errors & omissions claims recoverable	327,950	365,269	327,950	365,269
Other claims recoverable	-	-	-	-
Other debtors	894,592	791,085	(939,793)	(854,957)
Prepaid pension	2,026	594,406	2,026	594,406
Other prepayments and accrued income	836,448	577,702	849,684	571,765
	<u>172,729,356</u>	<u>55,676,352</u>	<u>169,858,225</u>	<u>54,714,834</u>

Other debtors includes loans of £382,498 (2001 - £590,895) receivable after more than one year. The loans are subordinated to the rights of other creditors.

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13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002	2001	2002	2001
Insurance creditors	226,551,287	97,128,167	223,482,882	95,962,501
Parent and fellow subsidiaries	355,223	749,566	355,223	749,566
Current corporation tax	(106,956)	610,868	(106,956)	610,868
Other taxes and social security costs	842,270	654,770	823,259	646,860
Other creditors	2,313,502	1,102,805	2,287,912	1,069,932
Accruals	3,548,065	2,531,099	3,496,953	2,512,845
	<u>233,503,391</u>	<u>102,777,275</u>	<u>230,339,273</u>	<u>101,552,572</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES

The movements are as follows:

	Company & Group	
	2002	2001
At 1 January	1,099,812	867,238
Errors & omissions claims (note 23)	(34,557)	11,132
Onerous lease provision (note 22)	(611,744)	448,792
Deferred taxation provision for the year	<u>198,000</u>	<u>(227,350)</u>
At 31 December	<u>651,511</u>	<u>1,099,812</u>

15. DEFERRED TAXATION

	Company & Group	
	2002	2001
Capital allowances in advance of depreciation	399,996	17,890
Timing differences on pension payments	<u>(75,996)</u>	<u>108,110</u>
	<u>324,000</u>	<u>126,000</u>

There is no unprovided deferred taxation

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16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital	Share premium account	Profit and loss account	Total
Group				
At 1 January 2002	5,000,000	3,605,994	11,883,144	20,489,138
Exchange difference	-	-	(36,810)	(36,810)
Transfer to reserves	-	-	2,879,706	2,879,706
Dividend	-	-	(1,379,310)	(1,379,310)
At 31 December 2002	<u>5,000,000</u>	<u>3,605,994</u>	<u>13,346,730</u>	<u>21,952,724</u>
Company				
At 1 January 2002	5,000,000	3,605,994	11,460,568	20,066,562
Transfer to reserves	-	-	2,217,608	2,217,608
Dividend	-	-	(1,379,310)	(1,379,310)
At 31 December 2002	<u>5,000,000</u>	<u>3,605,994</u>	<u>12,298,866</u>	<u>20,904,860</u>

The exchange difference arises from the retranslation of net assets of overseas subsidiary undertaking.

An interim dividend of £1,379,310 was paid during the year (2001: £ nil). No final dividend (2001: £ nil) will be paid.

At 31 December 2002 the allotted, called up and fully paid share capital of the company amounted to £5,000,000 (2001: £5,000,000).

17. POST BALANCE SHEET EVENTS

The directors are not aware of any significant events arising after the balance sheet date that require disclosure or adjustment to any amount included within the financial statements.

18. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Company in an independently administered fund.

Those individuals previously employed by Morgan Read & Sharman Limited, whom on acquisition, did not transfer their pension into the Company scheme, have retained frozen deferred defined benefit pensions in the Lloyds' Superannuation Fund. In the event that the fund is wound up and is unable to meet its commitments, the Company will be liable to make a contribution. No reasonable estimate can be made as to whether the fund will in fact be unable to meet its commitments at a future date or of the extent of the Company's liability should this situation arise.

The amount of prepaid pension at the balance sheet date is shown within debtors and detailed in Note 12.

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19. TRANSACTIONS WITH DIRECTORS

All of the directors who are underwriting members of Lloyd's participate in syndicates on similar terms which govern all other members of the syndicates in which they participate. In the normal course of business, the Company may place risks with the syndicates at Lloyd's in which the directors participate as members. Any such business is placed on a normal commercial basis. Other than as noted above, no director is connected with any insurance underwriter other than as an insignificant shareholder in an insurance company listed on a recognised stock exchange.

As far as the directors are aware, other than as discussed above, no transaction or arrangement involving a director of the Company requires disclosure in these accounts under the Companies Act 1985.

20. OTHER FINANCIAL COMMITMENTS

At 31 December 2002 the group had annual commitments under non-cancellable operating leases comprising:

	2002	2001
Land and buildings		
- Expiring within 1 year	-	12,667
- Expiring between 2 to 5 years	25,000	-
- Expiring after more than 5 years	1,555,310	1,555,310
Other assets		
- Expiring within 1 year	1,617	6,027
- Expiring between 2 to 5 years	9,556	4,447

Whilst the above is the annual commitment, the Group has entered into arrangements with other occupants of the office premises as to rent payable. Note 4 sets out the charge for the year.

The Company has agreed to provide financial support for the foreseeable future to Risk Management Partners Ltd, a joint venture in which the Company has a 50% stake.

21. RELATED PARTY TRANSACTIONS

Financial Reporting Standard 8 "Related Party Disclosures" exempts the reporting of transactions between group companies. The Company has taken advantage of this exemption.

22. LEASE PROVISIONS

During the year the company reoccupied its previously sub-let office premises. The remainder of this lease provision together with that taken over in 2001 from Morgan Read & Sharman Limited, were released to profit during the year. The amount released in the year was £611,744 (2001: £48,876).

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23. ERRORS & OMISSIONS CLAIMS

As a normal consequence of the Company's operations, a number of errors and omissions claims have been made against the Company. Most of the claims are covered by professional indemnity insurance with many of the defences of these claims being conducted by the Company's insurers. The directors do not expect the outcome of these claims, either individually or in aggregate, to have a material effect upon the Company's operations or financial position

In accordance with FRS 12, the directors' current best estimate of the amount required to settle certain claims has been included within provisions for liabilities and charges in the balance sheet. The gross amount of this estimate is £327,511 (2001: £362,067). The related amount recoverable from the Company's professional indemnity insurers of £327,511 (2001: £362,067) has been included within debtors. As allowed by FRS 12, further detailed disclosure has not been given as to do so may seriously prejudice the outcome of any legal proceedings

24. ULTIMATE PARENT UNDERTAKING

The Company is itself, the parent of the smallest group of undertakings for which consolidated financial statements are prepared. The largest group of undertakings of which the company is a member, and for which group Financial Statements are prepared, is headed up by Arthur J Gallagher Co, Limited, a company incorporated in the United States of America, which is the ultimate parent undertaking. A copy of the consolidated financial statements is available from the Registered Office of the Company