

ARTHUR J. GALLAGHER (UK) LIMITED

Annual Report and Financial Statements

31 December 2007



Company Number: 1193013

Arthur J.Gallagher (UK) Limited

DIRECTORS

D E McGurn	(USA)	(Chairman)
J Patrick Gallagher	(USA)	
D C Ross		
M K Barton		
S Dalgarno		
J Begley		
M W Cooper-Mitchell	(Non-Executive Director)	
P T O'Neill	(Non-Executive Director)	

SECRETARY

A Pfitzner

AUDITORS

Ernst & Young LLP
1 More London Place
London
SE1 2AF

BANKERS

Barclays Bank PLC
1 Churchill Place
London
E14 5HP

REGISTERED OFFICE

9 Alie Street
London
E1 8DE

Arthur J.Gallagher (UK) Limited

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the year ended 31 December 2007

PRINCIPAL ACTIVITIES

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

REVIEW OF THE BUSINESS AND FUTURE ACTIVITIES

For the year ended 31 December 2007, Arthur J Gallagher (UK) Limited recorded a consolidated profit before tax of £1.5m, compared to profits of £5.1m for the year ended 31 December 2006.

The result for 2007 is evidence of weakening market rates and lost business within our reinsurance division. Turnover decreased by 7% to £56.9m compared to £60.9m in 2006, which is indicative of the tough market conditions and a weakening US dollar.

The investment in human capital increased slightly more proportionately than turnover, as evidenced by the increase in staff numbers from 390 in 2006 to 437 in 2007.

The results of Risk Management Partners (RMP), the principal trading subsidiary of the Company, for the year ended 31 December 2007, was a profit before tax of £3.6m (2006: £3.9m).

The results and balance sheet of the Group's Asian entities are included in the group profit and loss account and the group balance sheet. The results of the Group's Asian entities for the year ended 31 December 2007 was a gain of £29,000 (2006: loss of £0.1m).

In 2008, the Directors expect benefits from areas of expansion and improved efficiencies, in addition to further top line revenue growth in the continuing operations, in accordance with the Group's strategic plan and forecast. In the 1st quarter of 2008, the company sold its reinsurance broking business and Asia entity.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in these financial statements on pages 7 to 24. The retained profit for the year of £0.6m (2006: £3.2m) was transferred to reserves. No interim dividend was paid during the year (2006: £ nil). The directors have not recommended the payment of a final dividend (2006: £ nil).

DISCONTINUED OPERATIONS

On 22 February 2008 the Group entered into a sale and purchase agreement to sell certain assets of the reinsurance business of Arthur J Gallagher (UK) Limited. The sale was completed on 25 March 2008. The results of the business sold are included under discontinued operation on the consolidated profit and loss account. The loss before tax of the reinsurance business for the year ended 31 December 2007 was £2.4m.

Arthur J.Gallagher (UK) Limited

REPORT OF THE DIRECTORS

DIRECTORS AND THEIR INTERESTS

The directors serving during the year ended 31 December 2007 are shown below

D E McGurn	S M Gander (resigned on 11 March 2008)
J Patrick Gallagher	S Dalgarno (appointed on 12 February 2007)
D C Ross	J Begley
W J Bushell (resigned on 11 March 2008)	M W Cooper-Mitchell
M K Barton	P T O'Neill

A Leslie resigned as a director on 23 January 2007

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.

FINANCIAL RISK MANAGEMENT

The nature of the Group's international operations and debt profile expose it to a variety of financial risks including the effects of changes in foreign currency exchange rates, counter party credit risks, liquidity and interest rates. The Group has in place a risk management programme and policies that seek to limit the adverse impact upon the Group by the use of financial instruments to fix currency rates.

Borrowing Facilities and Liquidity Risk

The Group maintains facilities to ensure that it has adequate available funds to finance operations and the growth of the business. The Group has a core uncommitted overdraft facility of £250k. The overdraft has not been drawn down upon in 2007.

Foreign Currency Risk

The Group's major currency transaction exposure arises in respect of US dollar revenue earned in the UK. As a consequence, the Group's results are sensitive to changes in the sterling/US dollar exchange rate.

Where forward foreign exchange contracts have been entered into to manage currency risk, they are designated as hedges of currency risk on specific future cash flows, which qualify as highly probable transactions for which hedge accounting has been used.

Interest Rate Risk

The Group has interest bearing assets but no material interest bearing liabilities that would give rise to exposures to fluctuations in interest rates.

Counterparty Credit Risk

The Group manages its cash and investment balances in the form of deposits with prime banks and other short term money market instruments, in accordance with an investment and counterparty policy agreed by the Board of Directors, and, in respect of fiduciary funds, all relevant regulatory guidelines. Investment and bank counterparties are subject to pre-approval at Board level. All exposures to individual counterparties are subject to a limit to control undue concentrations of credit risk.

Price Risk

The Group does not have a material exposure to equity securities price risk or commodity price risk.

Arthur J.Gallagher (UK) Limited

REPORT OF THE DIRECTORS

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the Company made charitable contributions totalling £17,000 (2006 £20,000) There were no political donations made during the year (2006 £nil)

EMPLOYMENT POLICIES

The Group is an equal opportunities employer and bases all decisions on individual ability regardless of race, religion, gender, age or disability

Applications for employment by disabled persons will always be fully considered, having regard to their particular aptitudes and abilities Should employees become disabled, every effort will be made to ensure that their employment with the Group continues and, in the event that they are unable to continue to work, that their financial interests are safeguarded It is the intention of the Group that opportunities for training, career development and promotion of disabled persons should, as far as possible, be identical with those for other employees

SUPPLIER PAYMENT POLICY

The Group agrees payment terms with suppliers when it enters into contracts for the purchase of goods and services and seeks to abide by those terms when it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions

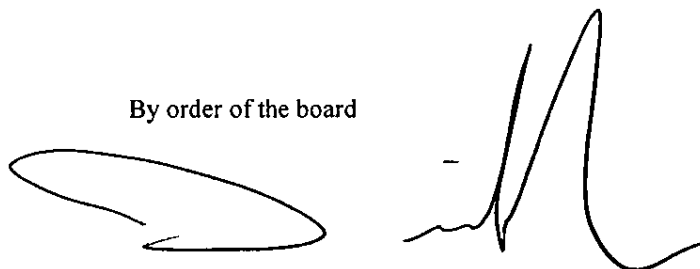
DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information that the auditor is aware of that information

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, consisting of a large, stylized 'D' followed by a series of loops and a final downward stroke.

D Ross
Director
Date 20th May 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

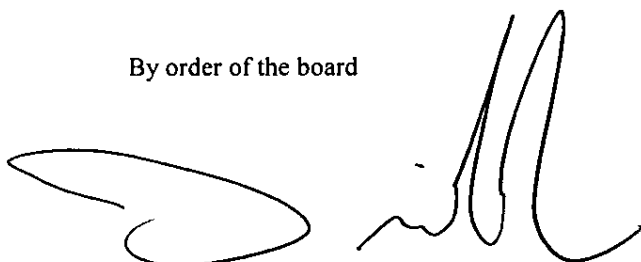
Company law requires the directors to prepare financial statements for each financial year. Under that law directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for the period. In preparing these 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a series of loops and a final flourish.

D Ross
Director
Date 20th May 2008

**INDEPENDENT AUDITORS' REPORT
to the shareholders of Arthur J.Gallagher (UK) Limited**

We have audited the group and parent company financial statements ("the financial statements") of Arthur J Gallagher (UK) Limited for the year ended 31 December 2007 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognized Gains and Losses and the Group and Company Balance Sheets and the related notes 1 to 22. These financial statements have been prepared under 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Report of the Directors 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2007 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the Report of the Directors is consistent with the financial statements.



Ernst & Young LLP
Registered auditor
London
Date 29th May 2008

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements
GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2007

	Notes	Discontinued operations £'000	Continuing operations £'000	Total 2007 £'000	Total 2006 £'000
TURNOVER	2	11,499	45,353	56,852	60,925
Other operating income	3	499	2,945	3,444	3,800
Other operating charges		(14,350)	(44,499)	(58,849)	(59,663)
OPERATING (LOSS) / PROFIT	4	(2,352)	3,799	1,447	5,062
Profit on disposal of fixed assets	5	-	23	23	10
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,352)	3,822	1,470	5,072
Tax charge on profit on ordinary activities	8			(836)	(1,886)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				634	3,186
Minority interests				-	54
RETAINED PROFIT TRANSFERRED TO RESERVES				634	3,240

The result attributable to the members of the parent company is a loss of £405,000 (2006 profit of £250,000)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2007 £'000	2006 £'000
Profit for the year to shareholders	634	3,240
Exchange differences on retranslation of net assets of subsidiary undertaking	(1)	288
	633	3,528

The notes on pages 10 to 24 are an integral part of these financial statements The auditors' report is on page 6

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

GROUP BALANCE SHEET

as at 31 December 2007

	Notes	2007 £'000	2006 £'000
NON CURRENT ASSETS			
Intangible assets	9	6,745	6,812
Tangible assets	10	4,331	3,891
		<u>11,076</u>	<u>10,703</u>
CURRENT ASSETS			
Debtors	12	114,018	149,588
Cash at bank and in hand		58,142	67,049
		<u>172,160</u>	<u>216,637</u>
CREDITORS: amounts falling due within one year	13	<u>(154,542)</u>	<u>(201,048)</u>
NET CURRENT ASSETS		17,618	15,589
TOTAL ASSETS LESS CURRENT LIABILITIES		28,694	26,292
PROVISIONS FOR LIABILITIES AND CHARGES	14	(8,288)	(6,632)
MINORITY INTERESTS		-	113
NET ASSETS		<u>20,406</u>	<u>19,773</u>
CAPITAL RESERVES			
Called-up share capital	17	5,000	5,000
Share premium account	16	3,606	3,606
Profit and loss account	16	11,800	11,167
SHAREHOLDERS' FUNDS	16	<u>20,406</u>	<u>19,773</u>

The financial statements on pages 7 to 24 were approved by the board of directors on 20th May 2008 and were signed on its behalf by



D Ross
Director

The notes on pages 10 to 24 are an integral part of these financial statements. The auditor's report is on page 6

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements
COMPANY BALANCE SHEET
as at 31 December 2007

	Notes	2007 £'000	2006 £'000
NON CURRENT ASSETS			
Intangible assets	9	3,304	4,498
Tangible assets	10	3,698	3,426
Investments	11	3,994	3,440
		<u>10,996</u>	<u>11,364</u>
CURRENT ASSETS			
Debtors	12	110,962	148,101
Cash at bank and in hand		51,480	58,790
		<u>162,442</u>	<u>206,891</u>
CREDITORS: amounts falling due within one year	13	<u>(148,416)</u>	<u>(194,484)</u>
NET CURRENT ASSETS		14,026	12,407
TOTAL ASSETS LESS CURRENT LIABILITIES		25,022	23,771
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(8,288)</u>	<u>(6,632)</u>
NET ASSETS		<u>16,734</u>	<u>17,139</u>
CAPITAL RESERVES			
Called-up share capital	17	5,000	5,000
Share premium account	16	3,606	3,606
Profit and loss account	16	8,128	8,533
SHAREHOLDERS' FUNDS	16	<u>16,734</u>	<u>17,139</u>

The notes on pages 10 to 24 are an integral part of these financial statements. The auditor's report is on page 6

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Accounting convention

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and comply with accounting standards applicable in the United Kingdom

The company is a wholly-owned subsidiary of Arthur J Gallagher & Co and is included in the consolidated financial statements of Arthur J Gallagher & Co which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Arthur J Gallagher & Co group or investees of the Arthur J Gallagher & Co group.

Basis of consolidation

The group financial statements consolidate the financial statements of Arthur J Gallagher (UK) Limited and all its subsidiary undertakings as at 31 December 2007. 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 consolidation of all subsidiary undertakings. Consequently, the group financial statements include the appropriate share of these undertakings' results from the date of acquisition.

Turnover

Turnover represents brokerage and fees associated with placing insurance and reinsurance contracts. It is net of commission payable and is recognised at the later of inception date and the date the placement is completed and confirmed.

Claims handling obligations

The company provides for the expected cost of providing future claims handling services in respect of its insurance and reinsurance broking activities by reference to the estimated number of claims and expected costs. The provision is made in accordance with the requirements of FRS12 "Provisions, contingent liabilities and contingent assets".

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 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
Purchased goodwill	- over 20

Annual Report and Financial Statements
NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

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 improvements	- to lease expiration
Furniture and equipment	- over 10 years
Computer equipment and software	- over 3 years
Motor vehicles	- between 2 and 4 years

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 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 currency transactions

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.

The assets and liabilities 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.

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.

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.

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.

Arthur J.Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

Insurance broking debtors and creditors (continued)

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. FRS 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.

2. TURNOVER

All operating activities of the group are attributable to insurance broking. The company has operations in the United Kingdom, Malaysia, Singapore and Hong Kong.

	United Kingdom		Asia		Total	
	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover						
UK & Europe	30,382	30,079	-	-	30,382	30,079
North America	16,386	19,191	-	-	16,386	19,191
Other countries	8,526	10,066	1,558	1,589	10,084	11,655
	55,294	59,336	1,558	1,589	56,852	60,925
Profit / (loss) before tax	1,441	5,180	29	(108)	1,470	5,072
Net assets / (liabilities)	20,442	19,931	(36)	(158)	20,406	19,773

Arthur J.Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

	United Kingdom		Asia		Total	
	2007	2006	2007	2006	2007	2006
2. TURNOVER (continued)	£'000	£'000	£'000	£'000	£'000	£'000
Turnover						
Discontinued operations	11,499	-	-	-	11,499	-
Continuing operations	43,795	59,336	1,558	1,589	45,353	60,925
	<u>55,294</u>	<u>59,336</u>	<u>1,558</u>	<u>1,589</u>	<u>56,852</u>	<u>60,925</u>
Profit / (loss) before tax						
Discontinued operations	(2,352)	-	-	-	(2,352)	-
Continuing operations	3,793	5,180	29	(108)	3,822	5,072
	<u>1,441</u>	<u>5,180</u>	<u>29</u>	<u>(108)</u>	<u>1,470</u>	<u>5,072</u>
3. OTHER OPERATING INCOME						
			Discontinued operations £'000	Continuing operations £'000	Total 2007 £'000	Total 2006 £'000
Investment income			499	2,782	3,281	3,506
Other income			-	163	163	294
			<u>499</u>	<u>2,945</u>	<u>3,444</u>	<u>3,800</u>
4. OPERATING PROFIT						
This is stated after charging						
			Discontinued operations £'000	Continuing operations £'000	Total 2007 £'000	Total 2006 £'000
Staff costs (note 7)			8,096	31,177	39,273	39,955
Auditors' remuneration *			-	211	211	242
Amortisation of intangible assets (note 9)			740	1,094	1,834	1,986
Loss on disposal of intangible assets (note 9)			564	66	630	-
Depreciation of fixed assets (note 10)			-	1,640	1,640	1,649
Operating lease rentals			-	2,376	2,376	2,242
Provision for doubtful debts (release) / charge			(15)	(797)	(812)	586
(Gain) / loss on foreign exchange			-	(569)	(569)	1,200

* £165,000 (2006 £190,000) of this relates to the parent company. The auditor's remuneration is in respect of audit fees for the company and its subsidiary undertakings. The auditors did not receive any remuneration for non audit services.

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

5. PROFIT ON DISPOSAL OF FIXED ASSETS

The Company disposed of fixed assets resulting in a realised gain of £23,000 (2006 £10,000) which has been disclosed in accordance with Financial Reporting Standard 3 'Reporting Financial Performance' as an exceptional item in the profit and loss account

6. DIRECTORS' EMOLUMENTS	2007 £'000	2006 £'000
Aggregate Emoluments	1,445	2,010
Company contributions paid to money purchase schemes	124	162
Compensation for loss of office	-	203
	<hr/>	<hr/>
Members of money purchase schemes	8	9
	<hr/>	<hr/>
The amounts in respect of the highest paid director are		
Aggregate Emoluments	488	650
Company Contributions paid to money purchase schemes	32	30
	<hr/>	<hr/>

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

	Discontinued operations £'000	Continuing operations £'000	Total 2007 £'000	Total 2006 £'000
7. STAFF COSTS				
Wages and salaries	6,795	26,350	33,145	33,898
Social Security costs	835	3,064	3,899	3,924
Pension costs (note 19)	466	1,763	2,229	2,133
	<u>8,096</u>	<u>31,177</u>	<u>39,273</u>	<u>39,955</u>

The average number of employees during the year was

Broking and technical	70	261	331	297
Administration	-	106	106	93
	<u>70</u>	<u>367</u>	<u>437</u>	<u>390</u>

8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES	2007 £'000	2006 £'000
The charge / (credit) for taxation comprises		
<i>Current tax</i>		
UK Corporation tax	1,423	1,850
Prior year adjustments	461	(2)
Total current tax	<u>1,884</u>	<u>1,848</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences (note 15)	(1,048)	38
Tax charge on profit on ordinary activities	<u>836</u>	<u>1,886</u>

Effective Tax Rate

The tax rate for the year is higher than the standard rate of tax in the UK (30%) The differences are explained below

Profit on ordinary activities before tax	1,470	5,072
Corporation tax at standard rate of 30% (2006 30%)	441	1,522
<i>Effect of</i>		
Depreciation in excess of capital allowances	94	144
Profit on disposal of fixed assets	(3)	(3)
Non deductible goodwill amortisation	92	82
Expenses not deductible for tax purposes	856	334
Unrelieved losses and other timing differences	(57)	(229)
Prior year adjustments	461	(2)
Current tax charge for the year	<u>1,884</u>	<u>1,848</u>

Arthur J.Gallagher (UK) Limited

Annual Report and Financial Statements NOTES TO THE FINANCIAL STATEMENTS

	Expiration Lists £'000	Goodwill £'000	Total £'000
9. INTANGIBLE ASSETS			
Group			
Cost:			
At 1 January 2007	12,053	9,492	21,545
Additions during the year	963	1,434	2,397
Disposals during the year	(1,179)	(6,755)	(7,934)
At 31 December 2007	11,837	4,171	16,008
Amortisation:			
At 1 January 2007	7,555	7,178	14,733
Charge for the year	1,527	307	1,834
Disposals during the year	(549)	(6,755)	(7,304)
At 31 December 2007	8,533	730	9,263
Net book value:			
At 31 December 2007	3,304	3,441	6,745
At 1 January 2007	4,498	2,314	6,812
Company			
Cost:			
At 1 January 2007			12,053
Additions during the year			963
Disposals during the year			(1,179)
At 31 December 2007			11,837
Amortisation:			
At 1 January 2007			7,555
Charge for the year			1,527
Disposals during the year			(549)
At 31 December 2007			8,533
Net book value:			
At 31 December 2007			3,304
At 1 January 2007			4,498

Arthur J.Gallagher (UK) Limited

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NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS (continued)

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

Goodwill represents the difference between the purchase cost and the net assets acquired in the subsidiaries Arthur J Gallagher Asia Pte Ltd and Risk Management Partners Ltd. Goodwill is being written off over 20 years from date of purchase or initial investment. The goodwill disposal in the year is in respect of MRS Holdings Ltd and Morgan Read & Sharman Ltd which was fully amortised in 2004, and struck off in 2007.

An additional goodwill amortisation charge of £98,000 was made in the year to reflect the impairment in value.

10. TANGIBLE ASSETS	Leasehold improvements £'000	Computer equipment £'000	Furniture & equipment £'000	Motor vehicles £'000	Total £'000
Group					
Cost or valuation:					
At 1 January 2007	2,997	4,067	1,454	565	9,083
Additions	339	1,464	97	197	2,097
Disposals	(39)	(91)	(47)	(124)	(301)
At 31 December 2007	3,297	5,440	1,504	638	10,879
Depreciation:					
At 1 January 2007	1,923	2,228	738	303	5,192
Charge for the year	344	933	184	179	1,640
Disposals	(39)	(74)	(47)	(124)	(284)
At 31 December 2007	2,228	3,087	875	358	6,548
Net Book Value:					
At 31st December 2007	1,069	2,353	629	280	4,331
At 1 January 2007	1,074	1,839	716	262	3,891

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	Leasehold improvements £'000	Computer equipment £'000	Furniture & equipment £'000	Motor vehicles £'000	Total £'000
10. TANGIBLE ASSETS (Continued)					
Company					
Cost or valuation:					
At 1 January 2007	2,847	3,476	1,379	86	7,788
Additions	339	1,150	97	22	1,608
Disposals	(7)	(48)	(4)	-	(59)
At 31 December 2007	3,179	4,578	1,472	108	9,337
Depreciation:					
At 1 January 2007	1,803	1,865	681	13	4,362
Charge for the year	326	799	177	18	1,320
Disposals	(5)	(34)	(4)	-	(43)
At 31 December 2007	2,124	2,630	854	31	5,639
Net Book Value:					
At 31st December 2007	1,055	1,948	618	77	3,698
At 1 January 2007	1,044	1,611	698	73	3,426

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	Subsidiary undertakings 2007 £'000
11. INVESTMENTS	
Company	
Cost:	
At 1 January 2007	11,695
Additions	1,321
At 31 December 2007	<u>13,016</u>
Permanent diminution in value:	
At 1 January 2007	(8,255)
Charge for the year	(767)
At 31 December 2007	<u>(9,022)</u>
Net Book Value:	
At 31 December 2007	<u>3,994</u>
At 1 January 2007	<u>3,440</u>

All investments in subsidiaries are stated at cost less any permanent diminution in value. The addition in the year relates to the acquisition of the 49% minority interest in Arthur J Gallagher Asia Pte Limited that it did not already own.

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				
Arthur J Gallagher Asia Pte Limited	Singapore	Ordinary	100%	Insurance Broking
Arthur J Gallagher Asia Limited*	Hong Kong	Ordinary	100%	Non-Trading
Arthur J Gallagher Asia (L) BHD*	Malaysia	Ordinary	100%	Insurance Broking
Risk Management Partners Limited	England & Wales	Ordinary	100%	Risk Management
Strand Underwriting Limited	England & Wales	Ordinary	100%	Dormant
Gallagher Re Limited	England & Wales	Ordinary	100%	Dormant
Re-Ex Limited**	England & Wales	Ordinary	100%	Dormant

* Held indirectly through Arthur J Gallagher Asia Pte Ltd

** Held indirectly through Gallagher Re Limited

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	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
12. DEBTORS				
Insurance debtors	109,220	145,339	105,705	141,967
Amounts owed by fellow group undertakings	208	171	872	1,040
Corporation tax	-	-	-	1,268
Deferred corporation tax (note 15)	2,299	1,251	2,234	1,197
Other debtors	1,167	1,404	1,076	1,312
Other prepayments	1,124	1,423	1,075	1,317
	114,018	149,588	110,962	148,101

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
13. CREDITORS: amounts falling due within one year				
Insurance creditors	143,507	185,651	138,619	180,062
Amounts owed to fellow group undertakings	78	109	78	109
Amounts owed to parent company	3,826	5,925	3,826	5,925
Other taxes and social security costs	1,287	1,156	1,204	1,094
Other creditors	982	2,095	842	1,859
Accruals and deferred income	3,652	5,824	3,192	5,435
Corporation tax	1,210	288	655	-
	154,542	201,048	148,416	194,484

	Provision for future property costs	Future servicing and claims handling costs		Total
		£'000	£'000	£'000
14. PROVISION FOR LIABILITIES AND CHARGES				
Group				
At 1 January 2007	-	6,632		6,632
Increase in provision	561	1,095		1,656
At 31 December 2007	561	7,727		8,288

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14 PROVISION FOR LIABILITIES AND CHARGES (continued)	Provision for future property costs £'000	Future servicing and claims handling costs £'000	Total £'000
Company			
At 1 January 2007	-	6,632	6,632
Increase in provision	561	1,095	1,656
At 31 December 2007	<u>561</u>	<u>7,727</u>	<u>8,288</u>

The provision for future servicing and claims handling costs is an estimate of the cost to run-off claims on policies previously placed by the Company. The provision is based on a projection of future claims applying a trend extrapolated from historical claims data. The provision is then discounted at the risk free interest rate of 5%.

During 2007 the company moved some of its employees from an office in Grays, Essex to London. A provision was made in respect of the costs of that office to the end of the lease for space it does not utilise.

15. DEFERRED TAXATION

Included in debtors shown in Note 12 are the following in respect of deferred taxation

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Opening deferred tax asset	1,251	1,392	1,197	1,375
<i>Amounts charged to profit and loss account including</i>				
Accelerated capital allowances	1,048	(38)	1,037	(75)
Hedge assets	-	(103)	-	(103)
Closing deferred tax asset	<u>2,299</u>	<u>1,251</u>	<u>2,234</u>	<u>1,197</u>

There is no unprovided deferred taxation

Deferred tax has been recognised at 28% (2006 30%) being the future UK corporation tax rate expected to apply when the deferred tax asset crystallises

Arthur J.Gallagher (UK) Limited

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16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	2007 Total £'000	2006 Total £'000
Group					
At 1 January	5,000	3,606	11,167	19,773	16,245
Exchange differences	-	-	(1)	(1)	288
Transfer to reserves	-	-	634	634	3,240
At 31 December	5,000	3,606	11,800	20,406	19,773
Company					
At 1 January	5,000	3,606	8,533	17,139	12,892
Exchange differences	-	-	-	-	241
Transfer to reserves	-	-	(405)	(405)	4,006
At 31 December	5,000	3,606	8,128	16,734	17,139

The Group exchange differences arise from re-translation of net assets of overseas subsidiary undertakings

No interim or final dividend was paid during the year (2006 £ nil) At 31 December 2007 the allotted, called up and fully paid share capital of the company amounted to £5m (2006 £5m)

17. SHARE CAPITAL

	2007 Number	2006 Number	2007 £'000	2006 £'000
Authorised				
Ordinary shares of £1 each	5,000,000	5,000,000	5,000	5,000
Allotted, issued and fully paid				
Ordinary shares of £1 each	5,000,000	5,000,000	5,000	5,000

Arthur J.Gallagher (UK) Limited

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18. POST BALANCE SHEET EVENTS

On 22 February 2008 the Group entered an agreement for the sale and purchase of certain assets of the reinsurance business of Arthur J Gallagher (UK) Limited. The sale was completed on 25 March 2008. The results of the business sold are included under discontinued operation on the consolidated profit and loss account.

On 4 April 2008 the Group entered an agreement for the sale of its Asia subsidiary undertakings Arthur J Gallagher Asia Pte Limited and Arthur J Gallagher Asia (L) BHD. An additional goodwill impairment charge of £98,000 was made in 2007. The net book value of the Asia subsidiaries as at 31 December 2007 of £1.3m reflects the expected sale proceeds from the sale.

19. 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. The pension cost for the year was £2,229,000 (2006: £2,133,000).

20. 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.

21. OTHER FINANCIAL COMMITMENTS

	2007 £'000	2006 £'000
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At 31 December 2007 the group had annual commitments under non-cancellable operating leases comprising

Land and Buildings

- Expiring within 1 year	-	25
- Expiring after more than 5 years	2,138	2,138

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.

Arthur J.Gallagher (UK) Limited

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22. ULTIMATE PARENT UNDERTAKING

The immediate parent company is Gallagher Holding (UK) Limited, a company registered in England and Wales

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 Arthur J Gallagher (UK) Limited