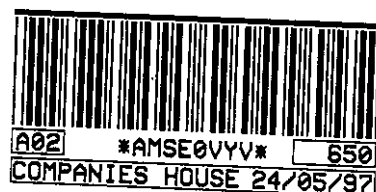


# Arthur J. Gallagher (UK) Limited

## Report and Accounts

31 December 1996



# Arthur J. Gallagher (UK) Limited

---

## **DIRECTORS**

J D Stancik (Chairman)  
G M Cavazzi  
C East (resigned 27 March 1996)  
T L W Evans  
John P Gallagher (died 23 February 1996)  
J Patrick Gallagher (USA)  
F Murphy  
P A Nastri  
A D Robertson  
I Rubie  
C Underwood

## **SECRETARY**

G M Cavazzi

## **AUDITORS**

Ernst & Young  
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

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1996.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company's principal activity continues to be that of insurance broking. During the year the Company acquired the entire share capital of Morgan, Read & Coleman Limited, an insurance broker, and Morgan Insurance Services Limited, an administrative services company. Details of the acquisitions are provided in note 10. The directors aim to continue expansion of its servicing capabilities through acquisition of professional businesses and personnel.

The profit and loss account reflects a loss before tax of £306,985 for the above newly acquired subsidiary undertakings. The directors feel that this does not reflect their ongoing, future profitability and is merely a result of the accounting treatment adopted, which requires consolidation of the results for the period from the date of acquisition to 31 December 1996 only. The nature of business conducted by these undertakings resulted in the majority of their profits for the year arising in the pre-acquisition period which therefore are not included within the group profit and loss account for the year. Details regarding their profitability are included in note 10 to the accounts on page 18.

The profit and loss account also reflects the group's share of losses in associated undertakings of £125,110. The directors feel that start up operations' current losses are not a reflection of future profitability.

### 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 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.

### RESULTS AND DIVIDENDS

The results of the group for the year ended 31 December 1996 are set out in the accounts on pages 6 to 23. The retained loss for the year was transferred to reserves. The directors do not recommend the payment of a dividend for the year.

### FIXED ASSETS

Details regarding the changes in fixed assets during the year are set out in notes 9 to 11 to the accounts

### EVENTS SINCE THE BALANCE SHEET DATE

As far as the directors are aware there are no significant events after the balance sheet date which affect the accounts.

## DIRECTORS' REPORT

### **DIRECTORS AND THEIR INTERESTS**

The directors serving during the year ended 31 December 1996 are shown on page 2. No director had any interest in the shares of the Company.

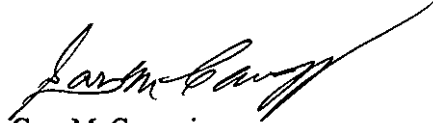
### **POLITICAL AND CHARITABLE CONTRIBUTIONS**

During the year, the company made charitable contributions totalling £1,374.

### **AUDITORS**

A resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board



Gary M. Cavazzi  
Secretary  
29 April 1997

# Arthur J. Gallagher (UK) Limited

---

## REPORT OF THE AUDITORS

to the members of Arthur J. Gallagher (UK) Limited

We have audited the accounts on pages 6 to 23, which have been prepared under the historical cost convention, and on the basis of the accounting policies set out on pages 9 and 10.

### Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

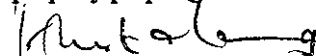
### Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 1996 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Chartered Accountants  
Registered Auditor  
London  
30 April 1997

# Arthur J. Gallagher (UK) Limited

## GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

(In Pounds Sterling)

<i>Continuing Operations:</i>	<i>Notes</i>	<i>1996</i>	<i>1995</i>
<b>TURNOVER</b>			
- Ongoing	2	7,857,401	8,322,863
- Acquisitions		1,606,855	-
Other operating income:			
- Ongoing	3	1,284,600	1,759,395
- Acquisitions	3	601,550	-
Other operating charges:			
- Ongoing	4	(8,945,702)	(8,750,291)
- Acquisitions	4	(2,515,390)	-
Share of loss in associated undertakings	10	(125,110)	(128,625)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(235,796)</b>	<b>1,203,342</b>
Tax on profit on ordinary activities	7	(52,849)	(382,592)
<b>RETAINED (LOSS)/PROFIT FOR THE YEAR</b>		<b>(288,645)</b>	<b>820,750</b>

## STATEMENT OF RECOGNISED GAINS AND LOSSES

(Loss)/profit attributable to shareholders of the company	(288,645)	820,750
Prior period adjustment (note 20)	(729,550)	-
Total recognised gains and losses relating to the year	(1,018,195)	820,750

# Arthur J. Gallagher (UK) Limited

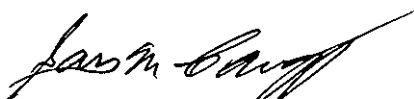
## GROUP BALANCE SHEET

as at 31 December 1996

(In Pounds Sterling)

	Notes	1996	1995
<b>FIXED ASSETS</b>			
Intangible assets	8	2,430,908	-
Tangible assets	9	1,521,619	558,170
Investments	10	41,136	70,697
		<u>3,993,663</u>	<u>628,867</u>
<b>CURRENT ASSETS</b>			
Debtors	11	99,157,395	49,042,047
Cash at bank and in hand		29,395,301	23,386,041
		<u>128,552,696</u>	<u>72,428,088</u>
<b>CREDITORS: amounts falling due within one year</b>	13	(123,452,775)	(64,787,434)
<b>NET CURRENT ASSETS</b>		<u>5,099,921</u>	<u>7,640,654</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>9,093,584</u>	<u>8,269,521</u>
<b>CREDITORS: amounts falling due after more than one year</b>	14	(154,963)	(154,963)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	15	(863,787)	(162,810)
		<u>8,074,834</u>	<u>7,951,748</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	744,476	744,476
Share premium account	18	564,000	564,000
Capital reserve	18	1,141,281	-
Profit and loss account	18	5,625,077	6,643,272
		<u>8,074,834</u>	<u>7,951,748</u>

Approved by the board on 29 April 1997  
and signed on its behalf by:



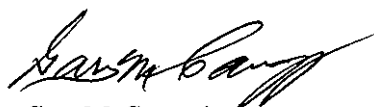
Gary M. Cavazzi  
Director

# Arthur J. Gallagher (UK) Limited

## BALANCE SHEET as at 31 December 1996 (In Pounds Sterling)

	Notes	1996	1995
<b>FIXED ASSETS</b>			
Intangible assets	8	2,430,908	-
Tangible assets	9	479,577	558,170
Investments	10	2,921,923	2,944,721
		<u>5,832,408</u>	<u>3,502,891</u>
<b>CURRENT ASSETS</b>			
Debtors	11	30,001,962	39,790,723
Cash at bank and in hand		12,696,410	21,172,313
		<u>42,698,372</u>	<u>60,963,036</u>
<b>CREDITORS: amounts falling due within one year</b>	13	(38,095,711)	(54,024,760)
<b>NET CURRENT ASSETS</b>		<u>4,602,661</u>	<u>6,938,276</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>10,435,069</u>	<u>10,441,167</u>
<b>CREDITORS: amounts falling due after more than one year</b>	14	(154,963)	(154,963)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	15	(819,787)	(162,810)
		<u>9,460,319</u>	<u>10,123,394</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	744,476	744,476
Share premium account	18	564,000	564,000
Profit and loss account	18	8,151,843	8,814,918
		<u>9,460,319</u>	<u>10,123,394</u>

Approved by the board on 29 April 1997  
and signed on its behalf by:



Gary M. Cavazzi  
Director



# Arthur J. Gallagher (UK) Limited

---

## NOTES TO THE ACCOUNTS

at 31 December 1996

(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.

Since the previous accounts the requirements of Financial Reporting Standard No 5 ("FRS5") - Reporting the Substance of Transactions - relating to balances arising from insurance broking transactions have become effective and comparative figures for 1995 have been restated accordingly.

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 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.

Undertakings, other than subsidiary undertakings, in which the group has an investment and over which it is in a position to exercise significant influence are treated as associated undertakings. The group accounts include the appropriate share of these undertakings results and reserves based on unaudited management accounts to 31 December 1996.

#### *Goodwill*

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. It is written off immediately against reserves on consolidation. Negative goodwill is credited to reserves.

#### *Revenue recognition*

Turnover comprises net retained brokerage. Brokerage is included in revenue when debit notes are processed irrespective of the inception date or period of insurance, except for reinsurance business which is credited following receipts of declarations.

#### *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 the next rent review
Furniture and equipment	-	over 5 years
Computer equipment	-	over 3 years
Motor vehicles	-	over 4 years

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historic cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss account.

#### *Deferred taxation*

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

1. ACCOUNTING POLICIES (continued)

*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 retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

*Pensions*

The group employees are members of the Gallagher Plumer 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.

*Leased assets*

Assets held under finance leases are capitalised and are depreciated over their useful economic lives.

The capital elements of future obligations under the leases are included as liabilities in the balance sheet.

The interest elements of the rental obligation are charged in the profit and loss account, as incurred, over the lease term.

Rentals payable under operating leases are charged to the profit and loss account, as incurred, over the lease term.

*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. a premium or a claim) 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 No 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.

Before the introduction of the Standard, recommended accounting practice presented insurance broking debtors and creditors on the basis of net settlement balances. However, as described above, in most instances of net settlement of insurance broking transactions, the conditions for recognition of offset defined in the Standard are not satisfied. For the past two years advantage has been taken of deferral of the offset provisions of FRS 5. For the year ended 31 December 1996 these provisions have been implemented. The effect of the new presentation has been to increase both group debtors and creditors by £63,409,465 (1995: £27,758,679) and company debtors and creditors by £14,957,456 (1995: £23,900,059).

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 2. TURNOVER

Turnover is attributable to one activity, which is and will continue to be, that of insurance broking,

An analysis of turnover by geographical market is given below:

	1996		1995
	Ongoing	Acquisitions	Ongoing
United Kingdom and Europe	3,442,680	996,250	2,867,082
North America	3,859,563	353,508	4,862,484
Other Countries	555,154	257,097	593,297
	<u>7,857,401</u>	<u>1,606,855</u>	<u>8,322,863</u>

### 3. OTHER OPERATING INCOME

	1996		1995
	Ongoing	Acquisitions	Ongoing
Investment income	1,018,778	530,173	1,262,990
Profit on sale of fixed assets	27,641	6,702	27,390
Other Income	238,181	64,675	469,015
	<u>1,284,600</u>	<u>601,550</u>	<u>1,759,395</u>

### 4. OPERATING PROFIT

This is stated after charging/(crediting):

	1996		1995
	Ongoing	Acquisitions	Ongoing
Staff costs (note 6)	4,917,374	1,317,842	5,297,843
Auditors' remuneration	28,400	10,517	48,000
Amortisation of unlisted investments	4,850	-	10,800
Depreciation of fixed assets	279,407	103,839	356,909
Operating lease rentals	672,414	180,769	672,414
Provision for doubtful debts	936	(3,276)	(58,155)
(Profit)/loss on foreign exchange	601,622	101,309	(142,434)
Other administrative expenses	2,440,699	804,390	2,564,914
	<u>8,945,702</u>	<u>2,515,390</u>	<u>8,750,291</u>

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 5. DIRECTORS' REMUNERATION

	1996	1995
Emoluments (including pension contributions)	1,846,999	1,143,955

The emoluments, excluding pension contributions, of the chairman and the highest paid director were:

	1996	1995
Chairman	177,746	189,886
Highest paid director	236,188	209,987

Other directors' emoluments, excluding pension contributions, fell within the following ranges:

	1996 No.	1995 No.
£nil - £5,000	2	2
£30,001 - £35,000	1	1
£50,001 - £55,000	-	1
£55,001 - £60,000	1	-
£60,001 - £65,000	-	1
£65,001 - £70,000	1	1
£70,001 - £75,000	-	1
£75,001 - £80,000	1	-
£95,001 - £100,000	1	-
£110,001 - £115,000	-	1
£120,001 - £125,000	-	1
£155,001 - £160,000	1	-
£160,001 - £165,000	-	1
£235,001 - £240,000	1	-

### 6. STAFF COSTS

	1996		1995
	Ongoing	Acquisitions	Ongoing
Salaries	4,086,584	1,050,804	4,223,153
Social security costs	406,041	123,684	440,054
Other pension costs	424,749	143,354	634,636
	4,917,374	1,317,842	5,297,843

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 6. STAFF COSTS (continued)

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

	1996 No.	1995 No.
Broking and technical	161	100
Administration	74	23
	<u>235</u>	<u>123</u>

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1996	1995
Based on the profit for the year:		
Corporation tax at 33%	(604,128)	520,910
Deferred taxation	<u>656,977</u>	<u>(138,318)</u>
	<u>52,849</u>	<u>382,592</u>

### 8. INTANGIBLE FIXED ASSETS

	<i>Restrictive Covenants</i>
<i>Group and company</i>	
Cost:	
At 1 January 1996	-
Increase during the year	<u>2,451,308</u>
At 31 December 1996	<u>2,451,308</u>
Amortisation	
At 1 January 1996	-
Increase during the year	<u>(20,400)</u>
At 31 December 1996	<u>(20,400)</u>
Net book value:	
At 31 December 1996	<u>2,430,908</u>
At 1 January 1996	<u>-</u>

Restrictive covenants represent agreements by employees not to compete with the company following termination of their employment. Restrictive covenants are amortised on a straight line basis over ten years. Any remaining balance at the date restrictive covenants become activated will be written off over the period of the agreement.

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 9. TANGIBLE FIXED ASSETS

	<i>Finance Leases</i>	<i>Computer Equipment</i>	<i>Leasehold Property</i>	<i>Furniture &amp; Equipment</i>	<i>Motor Vehicles</i>	<i>Total</i>
<b>Group</b>						
Cost or valuation:						
At 1 January 1996	-	1,501,898	454,536	1,054,338	623,158	3,633,930
Acquisition of subsidiary undertakings	102,299	189,520	219,427	27,704	484,692	1,023,642
Additions	-	69,933	9,488	26,933	263,010	369,364
Disposals	-	-	-	(1,963)	(179,971)	(181,934)
At 31 December 1996	102,299	1,761,351	683,451	1,107,012	1,190,889	4,845,002
Depreciation:						
At 1 January 1996	-	1,328,786	447,295	889,304	410,375	3,075,760
Charge for the year	22,015	145,029	11,512	50,227	154,463	383,246
Disposals	-	-	-	(1,963)	(133,660)	(135,623)
At 31 December 1996	22,015	1,473,815	458,807	937,568	431,178	3,323,383
Net book value:						
At 31 December 1996	80,284	287,536	224,644	169,444	759,711	1,521,619
At 1 January 1996	-	173,112	7,241	165,034	212,783	558,170
<b>Company</b>						
Cost or valuation:						
At 1 January 1996	-	1,501,898	454,536	1,054,338	623,158	3,633,930
Additions	-	69,933	9,488	18,462	124,525	222,408
Disposals	-	-	-	-	(121,287)	(121,287)
At 31 December 1996	-	1,571,831	464,024	1,072,800	626,396	3,735,051
Depreciation:						
At 1 January 1996	-	1,328,786	447,295	889,304	410,375	3,075,760
Charge for the year	-	124,858	4,345	44,826	105,378	279,407
Disposals	-	-	-	-	(99,693)	(99,693)
At 31 December 1996	-	1,453,644	451,640	934,130	416,060	3,255,474
Net book value:						
At 31 December 1996	-	118,187	12,384	138,670	210,337	479,577
At 1 January 1996	-	173,112	7,241	165,034	212,783	558,170

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 10. INVESTMENTS

<i>Group</i>	<i>1996</i>	<i>1995</i>
Associated undertakings (a)	29,639	36,400
Other fixed asset investments (b)	11,497	34,297
	<u>41,136</u>	<u>70,697</u>

#### *(a) Associated Undertakings*

	<i>Total</i>
At 1 January 1996	36,400
Share of loss before tax for the year:	
Grimston Insurance Services Limited	(5,207)
Risk Management Partners Limited	-
Share of tax for the year:	
Grimston Insurance Services Limited	(1,554)
Risk Management Partners Limited	-
At 31 December 1996	<u>29,639</u>

Details relating to associated undertakings are provided on page 16. The investment of £36,400 brought forward at 1 January includes the cost of the investment in Risk Management Partners Limited (RMP) of £10,000. The investment in associated undertakings is adjusted for retained losses of Grimston Insurance Services Limited only.

The group's share of retained losses in RMP amounted to £294,528 (1995: £174,625) at 31 December 1996 and is included within net current assets. The directors consider that while there has been a significant diminution in the value of the investment, this is not permanent and the operation will become profitable within an expected and acceptable time frame. Arthur J. Gallagher (UK) Limited and its joint venture partner have committed to provide continuing financial support to the undertaking for the foreseeable future.

The group's total share of (losses)/profits before tax of associated undertakings for the year is as follows:

	<i>1996</i>	<i>1995</i>
Risk Management Partners Limited	(119,903)	(174,625)
Grimston Insurance Services Limited	(5,207)	46,000
	<u>(125,110)</u>	<u>(128,625)</u>

#### *(b) Other fixed asset investments*

No listed investments are held by the group. In the opinion of the directors the value of unlisted investments is not less than the net book value.

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):

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 10. INVESTMENTS (continued)

<i>Name of company</i>	<i>Country of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of Business</i>
<b><i>Subsidiary undertakings</i></b>				
John Plumer & Partners Limited	England & Wales	Ordinary	100%	Lloyd's Broker
Morgan, Read & Coleman (Holdings) Limited	England & Wales	Ordinary	100%	Holding company
Morgan Insurance Services Limited	England & Wales	Ordinary	100%	Management Services
John Plumer & Company Limited	England & Wales	Ordinary	100%	Dormant
Arthur J. Gallagher Aviation Limited	England & Wales	Ordinary	100%	Dormant
Arthur J. Gallagher & Partners (UK) Ltd	England & Wales	Ordinary	100%	Dormant
AJG Twenty Limited	England & Wales	Ordinary	100%	Dormant
AJG Twenty One Limited	England & Wales	Ordinary	100%	Dormant
AJG Twenty Two Limited	England & Wales	Ordinary	100%	Dormant
AJG Twenty Three Limited	England & Wales	Ordinary	100%	Dormant
Φ Gallagher, Read & Coleman Limited	England & Wales	Ordinary	100%	Lloyd's Broker
Φ Morgan, Read & Coleman (Sweden) AB	Sweden	Ordinary	100%	Insurance Broker
Φ John Plumer & Partners Marine Limited	England & Wales	A Ordinary B Ordinary Participating Preference	100% 100% 100%	Dormant
Φ Held by subsidiary undertakings				
<b><i>Associated undertakings</i></b>				
(All held by the Company).				
Risk Management Partners Limited	England & Wales	Ordinary	50%	Risk Management Services
Grimston Insurance Services Limited	England & Wales	Ordinary	26%	Insurance Broker



# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 10. INVESTMENTS (continued)

<i>Company</i>	<i>Subsidiary undertakings</i>	<i>Associated undertakings</i>	<i>Loan to subsidiary undertaking</i>	<i>Other</i>	<i>Total</i>
Cost:					
At 1 January 1996	1,082,072	36,400	1,800,000	135,849	3,054,321
Transfer to current assets	-	-	-	(132,400)	(132,400)
Additions	2	-	-	-	2
At 31 December 1996	1,082,074	36,400	1,800,000	3,449	2,921,923
Amounts provided:					
At 1 January 1996	-	-	-	109,600	109,600
Transfer to current assets	-	-	-	(109,600)	(109,600)
At 31 December 1996	-	-	-	-	-
Net book value:					
At 31 December 1996	1,082,074	36,400	1,800,000	3,449	2,921,923
At 1 January 1996	1,082,072	36,400	1,800,000	26,249	2,944,721

The loan to a subsidiary company is subordinated to the rights of other creditors of that Company. It bears no interest and is only repayable with the consent of Lloyd's.

On 13 September 1996, with effect from 31 August 1996, the ultimate parent undertaking (see note 25) acquired 7,761,000 ordinary shares of 10 pence each in Morgan, Read & Coleman (Holdings) Limited and 100,000 ordinary shares of 10 pence each in Morgan Insurance Services Limited, being 100% of the nominal share capital of each company.

On 2 October 1996 ownership of the shares was transferred to Arthur J. Gallagher (UK) Limited for consideration of £2 satisfied in cash. The acquisition method of consolidation has been adopted with an effective date of acquisition of 31 August 1996.

Negative goodwill arising on each acquisition has been transferred to a capital reserve in the group balance sheet in accordance with Statement of Standard Accounting Practice 22 - "Accounting for Goodwill". The investments in Morgan, Read & Coleman (Holdings) Limited and Morgan Insurance Services Limited have been included in the Company's balance sheet at cost. Details relating to the fair value of their net assets at the date of acquisition are provided below.

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 10. INVESTMENTS (continued)

Net assets at date of acquisition (combined):

*Book and  
Fair value  
to the group*

Tangible fixed assets	1,023,642
Debtors	23,060,137
Cash	21,807,677
Other current assets	999,880
Current asset investments	35,250
Creditors due within one year	(45,703,603)
Deferred Taxation	(81,700)
Net Assets	1,141,283
Negative goodwill arising on acquisition	(1,141,281)
Fair value of consideration paid	2

Morgan, Read and Coleman (Holdings) Limited and Morgan Insurance Services Limited earned a combined profit after tax of £214,109 for the year ended 31 December 1995 and £1,042,722 for the period from 1 January 1996 to 31 August 1996. The summarised profit and loss account for the period from 1 January 1996 to the effective date of acquisition is as follows:

Turnover	6,681,283
Operating profit	1,628,718
Profit on sale of fixed assets	1,128
Profit before tax	1,629,846
Taxation	(587,124)
Profit for the eight months ended 31 August 1996	1,042,722

There were no recognised gains or losses for the period other than the profit of £1,042,722 above.

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 11. DEBTORS

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
Insurance debtors	95,420,393	46,372,096	26,658,411	36,947,380
Insurance balances owed by parent undertaking and fellow subsidiaries	139,785	333,166	141,021	333,166
Amounts owed by subsidiary undertakings	-	-	927,571	-
Amounts owed by associated undertakings	531,129	380,503	825,657	555,128
Other debtors	1,315,892	193,384	121,304	193,384
Prepayments and accrued income	1,750,196	1,762,898	1,327,998	1,761,665
	<u>99,157,395</u>	<u>49,042,047</u>	<u>30,001,962</u>	<u>39,790,723</u>

The amount owed by associated undertakings includes a loan of £350,000 receivable after more than one year and bears no interest. The loan is subordinated to the rights of other creditors of the associated undertaking.

### 12. LLOYD'S BROKERS SECURITY AND TRUST DEED

#### The principle deed:

As required by Lloyd's Brokers Byelaw (No. 5 of 1988), the Company and its broking subsidiaries have entered into trust deeds under which all insurance broking account assets are subject to floating charges held on trust by the Society of Lloyd's for the benefit of insurance creditors. Details of such creditors and the assets subject to charge are provided below. The charges only become enforceable under certain circumstances as set out in the deeds.

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
Insurance creditors	56,961,018	34,991,537	21,076,837	27,300,148
Bank balances	25,923,922	17,019,008	9,922,621	14,895,150
Insurance debtors	32,010,928	18,613,417	11,700,955	13,047,321
Assets subject to charge	<u>57,934,850</u>	<u>35,632,425</u>	<u>21,623,576</u>	<u>27,942,471</u>

Applying the provisions of FRS 5, insurance creditors and assets subject to charge would amount to:

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
Insurance creditors	120,370,483	62,750,216	36,034,293	42,257,604
Bank balances	25,923,922	17,019,008	9,922,621	14,895,150
Insurance debtors	95,420,393	46,372,096	26,658,411	28,004,777
Assets subject to charge	<u>121,344,315</u>	<u>63,391,104</u>	<u>36,581,032</u>	<u>42,899,927</u>

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 12. LLOYD'S BROKERS SECURITY AND TRUST DEED (continued)

#### Variation to the principle deed:

With respect to the insurance assets of Arthur J. Gallagher (UK) Limited and John Plumer & Partners Limited, the Company and the Society agreed on 20 January 1994 that without prejudice to the continuation of the floating charge contained in the principle deed, the charged assets shall be further charged by way of a second floating charge in favour of the Society, as trustee, as a continuing security (ranking equally with the original charge) for the payment of any liability of the broker in respect of any loan or overdraft facility obtained by the broker from an approved bank on an insurance broking account to the extent that such a loan or overdraft is used for any purpose referred to in paragraph 24 or 25(1)(d) of the byelaw.

The Company and the Society have further agreed that the principle deed shall be modified so that the appointment of a receiver under clause 8(a) of the principle deed and the release or modification of the principle deed shall be effected by notice and that notices under clauses 3, 6, 8 and 16 of the principle deed shall be valid if given in writing, signed by and officer of the Society authorised for that purpose.

### 13. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
Insurance creditors	120,370,483	62,750,216	36,034,293	51,200,207
Insurance balances owed to parent undertaking and fellow subsidiaries	-	-	2,528	-
Insurance balances owed to subsidiary undertakings	-	-	-	113,506
Amounts owed to parent undertaking and fellow subsidiaries	1,349,025	248,312	1,349,025	248,312
Amounts owed to subsidiary undertakings	-	-	633,233	729,918
Current corporation tax	(350,080)	637,814	(964,788)	637,812
Other taxes and social security costs	358,734	142,492	159,472	142,492
Other creditors	326,922	199,823	100,000	143,736
Accruals	1,397,691	808,777	781,948	808,777
	<u>123,425,775</u>	<u>64,787,434</u>	<u>38,095,711</u>	<u>54,024,760</u>

### 14. CREDITORS: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
Other creditors	154,963	154,963	154,963	154,963
	<u>154,963</u>	<u>154,963</u>	<u>154,963</u>	<u>154,963</u>

Other creditors consists of a shareholder's loan arising on the acquisition of the minority interest in the subsidiary undertaking Gallagher Plumer Non-Marine. It has no set repayment date and no interest is payable.

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 15. PROVISIONS FOR LIABILITIES AND CHARGES

The movements in deferred taxation are as follows:

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
At 1 January	(162,810)	(301,128)	(162,810)	(301,128)
Acquisition of subsidiary	(44,000)	-	-	-
Over provision in prior year	40,141	-	40,141	-
Provision for the year	(697,118)	138,318	(697,118)	138,318
At 31 December	<u>(863,787)</u>	<u>(162,810)</u>	<u>(819,787)</u>	<u>(162,810)</u>

### 16. DEFERRED TAXATION

	<i>Group</i>		<i>Company</i>	
	<i>1996</i>	<i>1995</i>	<i>1996</i>	<i>1995</i>
Capital allowances in advance of depreciation	104,085	158,699	156,810	158,699
Timing differences on pension payments	(162,301)	(304,057)	(170,696)	(304,057)
Other timing differences	(805,571)	(17,451)	(805,901)	(17,451)
	<u>(863,787)</u>	<u>(162,809)</u>	<u>(819,787)</u>	<u>(162,809)</u>

There is no unprovided deferred taxation.

### 17. RECONCILIATION OF SHAREHOLDERS' FUNDS

	<i>1996</i>	<i>1995</i>
Shareholders' funds at 1 January	7,222,198	7,130,998
Prior period adjustment (note 20)	-	(729,550)
Shareholders' funds at 1 January as restated	<u>7,222,198</u>	<u>6,401,448</u>
Retained (loss)/profit for the year	(288,645)	820,750
Shareholders' funds at 31 December	<u>6,933,553</u>	<u>7,222,198</u>

# Arthur J. Gallagher (UK) Limited

## NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

### 18. SHARE CAPITAL AND MOVEMENT ON RESERVES

	<i>Called up share capital</i>	<i>Share premium account</i>	<i>Capital reserve</i>	<i>Profit and loss account</i>	<i>Total</i>
<b>Group</b>					
At 1 January 1996	744,476	564,000	-	6,643,272	7,951,748
Prior period adjustment (note 20)	-	-	-	(729,550)	(729,550)
At 1 January 1996 as restated	744,476	564,000	-	5,913,722	7,222,198
Purchased negative goodwill (note 10)	-	-	1,141,281	-	1,141,281
Retained loss for the year	-	-	-	(288,645)	(288,645)
At 31 December 1996	744,476	564,000	1,141,281	5,625,077	8,074,834
<b>Company</b>					
At 1 January 1996	744,476	564,000	-	8,814,918	10,123,394
Prior period adjustment (note 20)	-	-	-	(729,550)	(729,550)
At 1 January 1996 as restated	744,476	564,000	-	8,085,368	9,393,844
Retained profit for the year	-	-	-	66,475	66,475
At 31 December 1996	744,476	564,000	-	8,151,843	9,460,319

The authorised share capital of the company consists of 1,250,000 ordinary shares of £1 each (1995: 1,250,000). At 31 December 1996 the allotted, called up and fully paid share capital of the company amounted to £744,476 (1995: £744,476).

### 19. TRANSACTIONS WITH DIRECTORS

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

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 the London Stock Exchange.

### 20. PRIOR PERIOD ADJUSTMENT

The prior period adjustment represents the recharge of management costs previously recognised by the parent company for the years 1992, 1993 and 1994.

## Arthur J. Gallagher (UK) Limited

---

### NOTES TO THE ACCOUNTS

at 31 December 1996

(In Pounds Sterling)

#### 21. 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 accounts.

#### 22. 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.

#### 23. OTHER FINANCIAL COMMITMENTS

At 31 December 1996 the group had annual commitments under non-cancellable operating leases comprising:

	1996	1995
Land and buildings		
- Expiring after more than 5 years	1,535,687	963,212
Other assets		
- Expiring within 1 year	3,011	-
- Expiring between 2 to 5 years	4,113	-

The company has agreed to provide financial support to Risk Management Partners, an associated undertaking, for the foreseeable future.

#### 24. RELATED PARTY TRANSACTIONS

Financial Reporting Standard No 8 - "Related Party Disclosures" exempts the reporting of transactions between group companies. The Company has taken advantage of this exemption.

#### 25. ULTIMATE PARENT UNDERTAKING

The Company is a wholly owned subsidiary of Arthur J. Gallagher & Co., incorporated in the United States of America, which the directors regard as the ultimate holding company. A copy of the holding company's accounts can be obtained from its Chief Financial Officer at The Gallagher Centre, Two Pierce Place, Itasca, Illinois, 60143-3141, USA.