

Arthur J. Gallagher (UK) Limited

Report and Accounts

31 December 2001



Arthur J. Gallagher (UK) Limited

DIRECTORS

D E McGurn	(Chairman) (USA)
B A King	
G M Cavazzi	
W J Bushell	
J Patrick Gallagher	(USA)
J D Stancik	(USA)
J A Leslie	
P A Natri	
J E Sparkes	
K J Hubbard	
D J R Sibree	
D C Ross	
A Wham	
G Barden	(Appointed 24 April 2001)
D Merry	(Appointed 11 June 2001)

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

Arthur J. Gallagher (UK) Limited

REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 December 2001.

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. During the year the Company acquired MRS Holdings Ltd, the parent company of Lloyd's broker Morgan, Read & Sharman Ltd, and transferred all the assets & liabilities of these companies to the Company. This acquisition was funded by an issue of further share capital. The directors aim to continue to extend the servicing capabilities of the Company through the acquisition of professional businesses and personnel.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2001 are set out in the accounts on pages 6 to 20. The retained profit for the year of £2,488,303 (2000: £2,156,214) was transferred to reserves. The directors do not recommend the payment of a final dividend (2000: £ nil).

DIRECTORS AND THEIR INTERESTS

The directors serving during the year ended 31 December 2001 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 £6,194 (2000: £4,400)

Arthur J. Gallagher (UK) Limited

REPORT OF THE DIRECTORS

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. 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.



Gary M. Cavazzi
Secretary

26 June 2002

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 2001 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.

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.

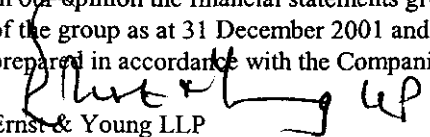
Basis of audit opinion

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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
London

June 27 2002

Arthur J. Gallagher (UK) Limited

GROUP PROFIT & LOSS ACCOUNT for the year ended 31 December 2001 (In Pounds Sterling)

	Notes	2001	2000
TURNOVER	2	24,376,638	18,752,394
Other operating income	3	2,510,281	2,342,732
Other operating charges		(24,672,452)	(18,586,337)
Share of after tax profits of associated undertakings	10	597,028	469,501
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	2,811,495	2,978,290
Tax on profit on ordinary activities	7	(296,916)	(865,500)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,514,579	2,112,790
Minority Interests		(26,276)	43,424
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>2,488,303</u>	<u>2,156,214</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There have been no recognised gains and losses other than the profit for the year shown above.

Arthur J. Gallagher (UK) Limited

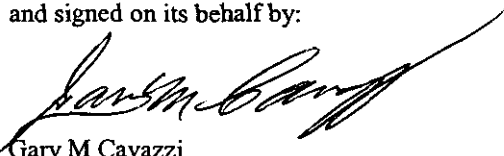
GROUP BALANCE SHEET

as at 31 December 2001

(In Pounds Sterling)

	Notes	2001	2000
FIXED ASSETS			
Intangible assets	9	7,851,644	347,651
Tangible assets	10	3,399,088	2,492,958
Investments	11	466,497	869,469
		<hr/>	<hr/>
		11,717,229	3,710,078
CURRENT ASSETS			
Debtors	12	55,676,352	85,220,220
Cash at bank and in hand		57,014,752	44,398,758
		<hr/>	<hr/>
		112,691,104	129,618,978
CREDITORS: Amounts falling due within one year	13	(102,777,275)	(121,742,669)
		<hr/>	<hr/>
NET CURRENT ASSETS		9,913,829	7,876,309
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		21,631,058	11,586,387
PROVISIONS FOR LIABILITIES AND CHARGES	14	(1,099,812)	(876,238)
MINORITY INTERESTS		(42,108)	(15,832)
		<hr/>	<hr/>
		20,489,138	10,703,317
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up shared capital	16	5,000,000	744,476
Share premium account		3,605,994	564,000
Profit and loss account		11,883,144	9,394,841
		<hr/>	<hr/>
	16	20,489,138	10,703,317
		<hr/>	<hr/>

Approved by the board
and signed on its behalf by:



Gary M Cavazzi

Director

26 June 2002

Arthur J. Gallagher (UK) Limited

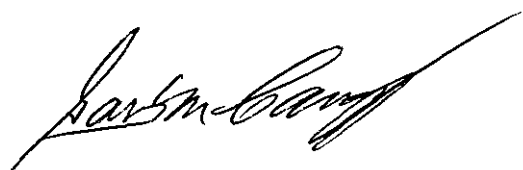
COMPANY BALANCE SHEET

as at 31 December 2001

(In Pounds Sterling)

	Notes	2001	2000
FIXED ASSETS			
Intangible assets	9	1,097,500	347,651
Tangible Assets	10	3,309,412	2,392,344
Investments	11	8,551,093	269,762
		<hr/>	<hr/>
		12,958,005	3,009,757
CURRENT ASSETS			
Debtors	12	54,714,834	83,726,179
Cash at bank and in hand		55,046,107	43,127,819
		<hr/>	<hr/>
		109,760,941	126,853,998
CREDITORS: Amounts falling due within one year	13	(101,552,572)	(118,939,849)
		<hr/>	<hr/>
NET CURRENT ASSETS		8,208,369	7,914,149
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		21,166,374	10,923,906
PROVISIONS FOR LIABILITIES AND CHARGES	14	(1,099,812)	(867,238)
		<hr/>	<hr/>
		20,066,562	10,056,668
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	16	5,000,000	744,476
Share premium account		3,605,994	564,000
Profit and loss account		11,460,568	8,748,192
		<hr/>	<hr/>
	16	20,066,562	10,056,668
		<hr/>	<hr/>

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



Gary M. Cavazzi

Director

26 June 2002

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2001

(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 2001.

Revenue recognition

Turnover comprises net retained brokerage. Brokerage is included in revenue at inception except for instalment business which is credited on the instalment due date and reinsurance business which is credited following receipt of declarations.

Amortisation

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
Restrictive covenants	-	over 10 years until triggered, then over the duration of the operation of the covenant

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

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.

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2001

(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 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.

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.

2. TURNOVER

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

	2001	2000
United Kingdom and Europe	10,034,320	7,490,246
North America	10,825,681	9,047,926
Other Countries	3,516,637	2,214,222
	<u>24,376,638</u>	<u>18,752,394</u>

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2001

(In Pounds Sterling)

3. OTHER OPERATING INCOME

	2001	2000
Investment income	2,321,624	2,325,751
Profit on sale of fixed assets	23,256	13,772
Other Income	165,131	3,209
	<u>2,510,281</u>	<u>2,342,732</u>

4. OPERATING PROFIT

This is stated after charging/(crediting):

	2001	2000
Staff costs (note 6)	15,901,286	11,174,266
Auditors' remuneration	61,083	55,569
Amortisation of intangible assets	468,893	634,300
Depreciation of fixed assets	722,851	597,496
Operating lease rentals	1,268,415	1,246,546
Provision for doubtful debts	(53,748)	-
Profit on foreign exchange	(220,948)	(242,334)

5. DIRECTORS' REMUNERATION AND LOANS

	2001	2000
Emoluments	<u>1,833,256</u>	<u>2,585,168</u>
Company contributions paid to money purchase schemes	<u>135,887</u>	<u>178,767</u>
Members of money purchase schemes	<u>11</u>	<u>11</u>
The amounts in respect of the highest paid director are as follows:	2001	2000
Emoluments	<u>264,505</u>	<u>523,289</u>
Company contributions paid to money purchase schemes	<u>16,271</u>	<u>89,709</u>

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2001

(In Pounds Sterling)

6. STAFF COSTS

	2001	2000
Salaries	12,318,512	8,766,904
Social security costs	1,637,518	1,029,466
Other pension costs	<u>1,945,256</u>	<u>1,377,896</u>
	<u>15,901,286</u>	<u>11,174,266</u>

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

	2001	2000
Broking and technical	252	154
Administration	<u>59</u>	<u>46</u>
	<u>311</u>	<u>200</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001	2000
Based on the profit for the year:		
Corporation tax at 30% (2000: 30%)	524,266	1,178,500
Deferred taxation	<u>(227,350)</u>	<u>(313,000)</u>
	<u>296,916</u>	<u>865,500</u>

The effective tax rate for the current period is lower than standard as a result of a repayment of tax following the resolution of a dispute with the Inland Revenue.

8. PROFIT ATTRIBUTABLE TO THE MEMBERS OF THE PARENT COMPANY

The profit attributable to the members of the parent company is £2,712,376 (2000: £1,788,036).

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2001

(In Pounds Sterling)

9. INTANGIBLE FIXED ASSETS

Group	Expiration Lists	Restrictive Covenants	Goodwill	Total
Cost:				
At 1 January 2001	191,253	2,635,510	-	2,826,763
Additions during the year	1,158,747	-	6,814,139	7,972,886
Disposals during the year	-	(2,635,510)	-	(2,635,510)
At 31 December 2001	<u>1,350,000</u>	<u>-</u>	<u>6,814,139</u>	<u>8,164,139</u>
Amortisation:				
At 1 January 2001	(191,253)	(2,287,859)	-	(2,479,112)
Charge for the year	(61,247)	(347,651)	(59,995)	(468,893)
Disposal during the year	-	2,635,510	-	2,635,510
At 31 December 2001	<u>(252,500)</u>	<u>-</u>	<u>(59,995)</u>	<u>(312,495)</u>
Net book value:				
At 31 December 2001	<u>1,097,500</u>	<u>-</u>	<u>6,754,144</u>	<u>7,851,644</u>
At 1 January 2001	<u>-</u>	<u>347,651</u>	<u>-</u>	<u>347,651</u>

Company	Expiration Lists	Restrictive Covenants	Total
Cost:			
At 1 January 2001	191,253	2,635,510	2,826,763
Additions during the year	1,158,747	-	1,158,747
Disposals during the year	-	(2,635,510)	(2,635,510)
At 31 December 2001	<u>1,350,000</u>	<u>-</u>	<u>1,350,000</u>
Amortisation:			
At 1 January 2001	(191,253)	(2,287,859)	2,479,112
Charge for the year	(61,247)	(347,651)	408,898
Disposals during the year	-	2,635,510	(2,635,510)
At 31 December 2001	<u>(252,500)</u>	<u>-</u>	<u>(252,500)</u>
Net book value:			
At 31 December 2001	<u>1,097,500</u>	<u>-</u>	<u>1,097,500</u>
At 1 January 2001	<u>-</u>	<u>347,651</u>	<u>347,651</u>

Restrictive covenants represent agreements by employees not to compete with the Company following termination of their employment. Until activated, they are amortised on a straight-line basis over ten years. Any remaining balance at the date a restrictive covenant becomes activated is written off over the period of the agreed covenant, generally 12 – 24 months.

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. The opening value has been restated to show the £191,253 amortised in 2000 as both opening cost and amortisation.

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.

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2001

(In Pounds Sterling)

10. TANGIBLE FIXED ASSETS

	Computers & Software	Leasehold Property	Furniture & Equipment	Motor Vehicles	Total
Group					
Cost or valuation:					
At 1 January 2001	1,451,655	1,073,468	675,840	1,066,941	4,267,904
Additions	725,837	516,626	220,807	725,246	2,188,516
Disposals	-	-	-	(235,348)	(235,348)
At 31 December 2001	<u>2,177,492</u>	<u>1,590,094</u>	<u>896,647</u>	<u>1,556,839</u>	<u>6,221,072</u>
Depreciation:					
At 1 January 2001	820,557	203,731	374,943	375,715	1,774,946
Additions	184,522	130,183	73,954	80,915	469,574
Charge for the year	331,029	86,002	55,010	250,810	722,851
Disposals	-	-	-	(145,387)	(145,387)
At 31 December 2001	<u>1,336,108</u>	<u>419,916</u>	<u>503,907</u>	<u>562,053</u>	<u>2,821,984</u>
Net book value:					
At 31 December 2001	<u>841,384</u>	<u>1,170,178</u>	<u>392,740</u>	<u>994,786</u>	<u>3,399,088</u>
At 1 January 2001	<u>631,098</u>	<u>869,737</u>	<u>300,897</u>	<u>691,226</u>	<u>2,492,958</u>
Company					
Cost or valuation:					
At 1 January 2001	1,417,303	1,051,520	674,110	1,019,794	4,162,727
Transfer from subsidiary	206,415	269,216	195,608	296,119	967,358
Other Additions	487,466	243,554	92,879	425,546	1,249,445
Disposals	-	-	(13,998)	(235,348)	(249,346)
At 31 December 2001	<u>2,111,184</u>	<u>1,564,290</u>	<u>948,599</u>	<u>1,506,111</u>	<u>6,130,184</u>
Depreciation:					
At 1 January 2001	819,603	202,652	374,770	373,358	1,770,383
Transfer from subsidiary	184,462	130,097	126,160	80,731	521,450
Charge for the year	312,471	80,948	54,264	240,641	688,324
Disposals	-	-	(13,998)	(145,387)	(159,385)
At 31 December 2001	<u>1,316,536</u>	<u>413,697</u>	<u>541,196</u>	<u>549,343</u>	<u>2,820,772</u>
Net book value:					
At 31 December 2001	<u>794,648</u>	<u>1,150,593</u>	<u>407,403</u>	<u>956,768</u>	<u>3,309,412</u>
At 1 January 2001	<u>597,700</u>	<u>848,868</u>	<u>299,340</u>	<u>646,436</u>	<u>2,392,344</u>

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2001

(In Pounds Sterling)

11. INVESTMENTS

Group

	2001	2000
Joint venture	355,000	757,972
Other investments	111,497	111,497
	<u>466,497</u>	<u>869,469</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:

	2001	2000
Turnover	<u>1,626,393</u>	<u>1,306,546</u>
Profit for the financial year	597,028	469,501
Dividend	(1,000,000)	-
Movement on reserves	<u>(402,972)</u>	<u>469,501</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:

	2001	2000
Total assets	652,607	948,772
Total liabilities	<u>(297,607)</u>	<u>(190,800)</u>
Net assets	<u>355,000</u>	<u>757,972</u>

The Group's share of retained profits in RMP amounted to £345,000 at 31 December 2001 (2000: £747,972) and is included within net current assets.

Company

	Other investments	Subsidiary undertakings	Joint venture	Total
Cost:				
At 1 January 2001	111,497	148,265	10,000	269,762
Additions	-	8,281,331	-	8,281,331
At 31 December 2001	<u>111,497</u>	<u>8,429,596</u>	<u>10,000</u>	<u>8,551,093</u>

During the year the Group acquired two new subsidiaries MRS Holdings Limited and Morgan, Read & Sharman Limited. All investments in subsidiaries are stated at cost less any permanent diminution in value.

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

as at 31 December 2001

(In Pounds Sterling)

11. Investments (continued):

On 1 November 2001 the group acquired MRS Holdings Limited for a consideration of £7,297,518 satisfied by the issue of 4,255,524 ordinary shares of £1 at £1.71 each. This investment has been included in the company's balance sheet at its fair value at the date of acquisition.

Analysis of the acquisition of MRS Holdings Limited:

	<i>Book and fair value to group</i>
Tangible fixed assets	445,908
Debtors	30,441,246
Cash	9,704,139
Creditors due within one year	(39,536,645)
Lease Provisions	(497,668)
Deferred taxation	(14,350)
Net assets	542,630
Goodwill arising on acquisition	6,754,888
	<u>7,297,518</u>
Discharged by:	
Fair value of shares issued	7,106,428
Costs associated with the acquisition	191,090
	<u>7,297,518</u>

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	70%	Insurance Broking
MRS Holdings Limited	England & Wales	Ordinary	100%	Holding Company
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

Arthur J. Gallagher (UK) Limited

NOTES TO THE ACCOUNTS

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12. DEBTORS

	Group		Company	
	2001	2000	2001	2000
Insurance debtors	53,299,736	81,836,396	53,951,701	80,318,005
Amounts owed by subsidiary undertakings	-	29,742	38,496	70,878
Amounts owed by associated undertakings	48,154	5,496	48,154	5,496
Errors & omissions claims recoverable	365,269	350,936	365,269	350,936
Other claims recoverable	-	2,400	-	2,400
Other debtors	791,085	1,542,051	(854,957)	1,542,051
Prepaid pension	594,406	1,186,786	594,406	1,186,786
Other prepayments and accrued income	577,702	266,413	571,765	249,627
	<u>55,676,352</u>	<u>85,220,220</u>	<u>54,714,834</u>	<u>83,726,179</u>

Other debtors includes loans of £590,895 (2000 - £600,000) receivable after more than one year. The loans are subordinated to the rights of other creditors.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2001	2000	2001	2000
Insurance creditors	97,128,167	119,365,447	95,962,501	116,620,792
Parent and fellow subsidiaries	749,566	455,056	749,566	455,056
Current corporation tax	610,868	601,729	610,868	601,729
Other taxes and social security costs	654,770	361,042	646,860	358,412
Other creditors	1,102,805	312,267	1,069,932	258,663
Accruals	2,531,099	647,128	2,512,845	645,197
	<u>102,777,275</u>	<u>121,742,669</u>	<u>101,552,572</u>	<u>118,939,849</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES

The movements are as follows:

	Group		Company	
	2001	2000	2001	2000
At 1 January	867,238	1,382,270	867,238	1,382,270
Errors & omissions claims (note 23)	11,132	(149,064)	11,132	(149,064)
Onerous lease provision (note 22)	448,792	(52,968)	448,792	(52,968)
Deferred taxation provision for the year	(227,350)	(313,000)	(227,350)	(313,000)
At 31 December	<u>1,099,812</u>	<u>867,238</u>	<u>1,099,812</u>	<u>867,238</u>

Arthur J. Gallagher (UK) Limited

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15. DEFERRED TAXATION

	Group		Company	
	2001	2000	2001	2000
Capital allowances in advance of depreciation	17,890	(30,577)	17,890	(30,577)
Timing differences on pension payments	108,110	280,553	108,110	280,553
Restrictive covenants	-	88,834	-	88,834
	<u>126,000</u>	<u>339,000</u>	<u>126,000</u>	<u>339,000</u>

There is no unprovided deferred taxation. On the acquisition of MRS Holdings Ltd its deferred tax credit of £14,350 was transferred to the company. This transaction had no impact on the company's profit for the year.

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 2001	744,476	564,000	9,394,841	10,703,317
Issues of new shares	4,255,524	3,041,994	-	7,297,518
Transfer to reserves	-	-	2,488,303	2,488,303
At 31 December 2001	<u>5,000,000</u>	<u>3,605,994</u>	<u>11,883,144</u>	<u>20,489,138</u>
Company				
At 1 January 2001	744,476	564,000	8,748,192	10,056,668
Issue of new shares	4,255,524	3,041,994	-	7,297,518
Transfer to reserves	-	-	2,712,376	2,712,376
At 31 December 2001	<u>5,000,000</u>	<u>3,605,994</u>	<u>11,460,568</u>	<u>20,066,562</u>

On 18 December 2001, the Board approved the increase in the authorised share capital of the company to 10,000,000 ordinary shares of £1 each (2000: 1,250,000), and the issue of 4,255,524 new ordinary shares at £1.71 each. At 31 December 2001 the allotted, called up and fully paid share capital of the company amounted to £5,000,000 (2000: £744,476).

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.

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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.

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 2001 the group had annual commitments under non-cancellable operating leases comprising:

	2001	2000
Land and buildings		
- Expiring within 1 year	12,667	19,000
- Expiring between 2 to 5 years	-	12,667
- Expiring after more than 5 years	1,555,310	1,555,310
Other assets		
- Expiring within 1 year	6,027	7,122
- Expiring between 2 to 5 years	4,447	1,980

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.

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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

On 1 December 1999 the company sub-let office premises for a period of 5 years at a rent below those paid by the company on its head lease. In accordance with the requirements of Financial Reporting Standard 12 "Provisions, Contingent Liabilities and Contingent Assets", a provision £230,270 representing the discounted value of the differential between the rent paid and that received on the sub-lease, was charged to profit in 1999. This provision is being released to profit over the duration of the lease at the discounted value relating to each year. The amount released in the year was £48,876 (2000: £52,968).

Upon acquisition, Morgan Read & Sharman Limited's provision in respect of the difference between the market value of its leases and the amount it was paying in rental was transferred to the Company. The value of this provision is £497,668. It will be released to profit over a five year period at the discounted value relating to each year.

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 £362,067 (2000: £350,935). The related amount recoverable from the Company's professional indemnity insurers of £ 362,067 (2000: £350,935) 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 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.