# Heath Lambert Limited

Annual Report and Financial Statements 2005



*Surprisingly different*

# Contents

# Chairman's Statement

2005 was a year of significant change and major achievement for Heath Lambert Limited. Following our refinancing in May, our financial position improved significantly. Throughout the year our market position in many of our target sectors strengthened and our ability to attract top quality people grew. We also made considerable progress in implementing our strategy of cementing our position as a leading independent UK retail broker and international wholesale and reinsurance broker in our chosen sectors.

**Results**

Heath Lambert Limited made a trading profit before taxation and exceptional items of £11.1 million in the year ended 31 December 2005. The company recorded a profit after taxation of £9.3 million before net exceptional costs of £8.2 million. This was achieved against a backdrop of immense change both within the industry and our Company and it is a credit to the quality and continued commitment of our staff that we have been able to deliver such solid results.

**Heath Lambert Limited Summary Profit and Loss Account**

| | Before exceptional items £m | Exceptional items* £m | Total 2005 £m |
|---|---|---|---|
| Turnover | 110.5 | - | 110.5 |
| Expenses | (114.9) | (8.4) | (123.3) |
| Other operating income | 11.0 | - | 11.0 |
| Interest received | 4.5 | - | 4.5 |
| **Trading profit/(loss)**** | **11.1** | **(8.4)** | **2.7** |
| Interest payable | (0.3) | - | (0.3) |
| Profit on disposal of operations | - | 0.2 | 0.2 |
| Taxation | (1.5) | - | (1.5) |
| **Profit/(loss) for year** | **9.3** | **(8.2)** | **1.1** |

* See note 7 on pages 15 and 16 for details

** Trading profit/(loss) is defined as operating profit/(loss) as reported in the profit and loss account plus interest receivable

**Strength in Independence**

In the wake of the investigations and lawsuits against US brokers at the end of 2004, the industry began to change the way it did business. We set a benchmark in this new environment of increased transparency when we launched a new market remuneration system in March 2005, a move that was widely welcomed in the London market. *Our increased focus on transparency and managing conflicts* of interest also reinforced the attractiveness of Heath Lambert as an independent broker, particularly on international wholesale business.

At the end of May 2005, HLG Holdings Limited, our parent company, refinanced through a consortium of new investors, led by Royal Bank of Scotland and Credit Suisse. This provided Heath Lambert Limited with a solid platform on which to base our strong programme of growth for the years ahead.

**Strategy**

A key part of our operational strategy is to build on our UK based operations and to focus on leveraging the areas in which we can achieve significant results and a 'best of breed' status. We recognise that the speed and agility our size provides, means that we have a competitive advantage over our larger and slower *competitors. We have also made considerable gains by playing to our* strengths which makes use of the exceptional skill base we have in certain sectors.

In June, for example, we launched a Sports Leisure & Entertainment practice, staffed by a small but elite team, including some of the most leading people in this sector. Also as an illustration, the year saw significant growth in the Transportation sector, with major clients coming on board and new rail, mass transit and logistics experts joining the team. In addition, our Personal Lines operation Heath Lambert Insurance Services, mirrored many other parts of the Company by building on its excellent reputation and attracting many high profile clients.

In support of our stated strategy, we recognised that change was required in order to strengthen our UK retail network, Heath Lambert National. The management structure was revamped and a new sales development approach and processes were implemented. We also opened two new offices in Newcastle and in Castle Donington in the East Midlands. The overriding aim in these changes is to ensure we maintain our absolute client focus.

In our Construction division, a growth in demand for our UK construction expertise saw us invest additional resources in this area. The result was our appointment to a number of major, high-profile accounts.

**The Best and Brightest**

It has also been a year of growth and development for our most important asset: our people. We have attracted a large number of highly talented people, those we believe to be the best and brightest, to work in both our specialist divisions and our operational areas. In fact, while our rivals have announced large scale redundancies across the UK, we actively recruited more new members of staff in 2005.

One of our core values as a Company is 'we are dedicated to developing our talent'. With this in mind, we invested a significant amount in training and development of our staff, both existing and new.

**Corporate Social Responsibility**
It is important to us as we grow that we carry out our business in a manner that befits a leading broker – attaining the highest standards of professionalism and performance in an ethical manner, ensuring we are a socially responsible corporate citizen. To this end, we have developed a fresh approach to corporate social responsibility. Details are available on our website, www.heathlambert.com.

2005 was the first year that the industry was regulated by the Financial Services Authority. We embraced the regulatory changes and incorporated them into our Standards of Business, using them as a guide and as a base on which to build.

In conclusion, it is the unique collective talents of our staff, the 'can-do' culture of our Company and our unwavering commitment to service excellence that allows us to win accounts repeatedly off rivals many times our size. We will further develop this successful approach to business, to ensure that throughout 2006, and in the years ahead, we continue to deliver for our clients, our staff and our investors.

Adrian Colosso
Chairman
27 April 2006

Throughout the year our market position in many of our target sectors strengthened and our ability to attract top quality people grew

# Directors' Report

The directors submit their report together with the audited financial statements of the Company for the year ended 31 December 2005.

**Activities and Review of the Business**

The principal activity of the Company, an accredited Lloyd's Broker, continues to be that of insurance broking and the provision of a full range of insurance broking services in the United Kingdom and abroad. In January 2005, the Company became regulated by the Financial Services Authority.

**Group Restructuring**

On 26 May 2005, Heath Lambert Holdings Limited, (previously the ultimate holding Company), sold its interest in Heath Lambert Group Limited, now Nameshell 1 Limited, an intermediate holding company of Heath Lambert Limited, to HLG Holdings Limited. As a result of this transaction, the ultimate parent undertaking of Heath Lambert Limited is now HLG Holdings Limited, a company incorporated in England and Wales.

The purchase by HLG Holdings Limited was backed by existing and new investors. The transaction also involved a capital restructuring, which included a reduction of the Group's senior debt.

Prior to the transaction, Heath Lambert Management Limited had been the principal employer and service provider in the UK for the Heath Lambert Group. As a result of the transaction, all staff have been transferred under TUPE to Heath Lambert Limited, which is now the main employer and the main service provider in the UK. Heath Lambert Management Limited, having no further operations, has been placed into administrative receivership. As a part of the restructuring, Heath Lambert Limited purchased certain assets and liabilities from Heath Lambert Management Limited. Following the restructuring, all expenses previously incurred by Heath Lambert Management Limited and recharged to Heath Lambert Limited are now incurred directly by Heath Lambert Limited.

**Results and Dividend**

The Company made a profit of £10.8m before tax and net exceptional costs. Net exceptional costs before tax totalled £8.2m and comprised of a profit of £0.2m on the disposal of operations, costs of a fundamental restructuring including losses on providing against inter-company receivables of £12.1m and a profit of £3.7m in respect of a reassessment of dilapidation liabilities relating to the Company's leasehold properties. The Company made a profit after net exceptional costs and taxation of £1.1m (2004: loss of £46.8m after exceptional items of £53.9m).

A final dividend of £nil has been paid (2004: £nil). A retained profit of £1.1m (2004: loss of £46.8m) has been transferred to reserves.

**Financial Risk Management**

The Company's operations expose it to a variety of financial risks that include the effects of changes in interest rates, changes in foreign exchange rates, credit risk and liquidity risk. The board of directors actively monitor the exposure of the Company to these risks and where necessary, take action to mitigate identified risks.

**Foreign Exchange Risk**

A significant amount of the Company's income is denominated in US Dollars. The Company hedges against potentially unfavourable movements in the rate of exchange which would have an adverse affect on the income of the Company and accordingly its cash position. The Company uses forward contracts as detailed in these financial statements in order to mitigate this risk.

**Credit Risk**

As an insurance broker, the Company's exposure to credit risk is minimised as when acting as an agent in placing the insurable risks of clients with insurers, brokers are generally not liable as principals for amounts arising from transactions other than for marine risks placed under the terms of the Marine Insurance Act 1906. Voluntary funding of payments on behalf of clients, from whom funds have not yet been received, happens only in exceptional circumstances. In each case, any voluntary funding is pre-approved by the board of directors.

**Liquidity Risk**

The Company's parent has entered into financing arrangements with its shareholders and lenders which are designed to leave the Group with a stable and manageable capital and debt structure. The Group's financing arrangements are sufficient to allow funds to be made available for expansion should an appropriate opportunity arise.

# Directors' Report (continued)

### Personnel

Information on the Company's activities and consultation with staff is provided regularly through various management communication channels. These include the circulation of internal bulletins, notices, press releases, meetings and presentations by senior management at major locations and provincial offices. The Company is committed to the principle of equal opportunity and ensuring that employees are not discriminated against in recruitment, career development or promotion.

### Disabled Employees

It is the policy of the Company not to discriminate between employees or potential employees with disabilities because of a reason relating to their disability and to offer the same employment opportunities, training, career development and promotion prospects to all.

### Directors

The directors of the Company who held office during the period and to the date of this report are:

W D Bloomer
M A Bruce
A Colosso
R N Thomas (Appointed 13 January 2006)
D Thornton
R J Sansom (Resigned 23 December 2005)

### Directors' Interests

None of the directors held any beneficial interest in the share capital of the Company. The beneficial interests, including family interests, in the securities of the ultimate parent undertaking at 31 December 2005, HLG Holdings Limited, according to the register of directors' interests maintained in compliance with the Companies Act 1985, are as follows:

| | Ordinary "C" shares of 0.1p 2005 |
|---|---|
| W D Bloomer | **125,000** |
| M A Bruce | **1,250,000** |
| A Colosso | **1,500,000** |
| R J Sansom | **1,000,000** |

W D Bloomer also holds 2 £1.00 deferred shares in HLG Holdings Limited.

HLG Holdings Limited was incorporated on 5 May 2005 and became the ultimate parent undertaking of Heath Lambert Limited on 26 May 2005.

### Payments to Suppliers

The Company conformed wherever possible to the payment terms agreed with its suppliers.

### Donations

During the year, donations to charities by the Company amounted to £4,949 (2004: £nil). Prior to 26 May 2005, charitable donations were made by Heath Lambert Management Limited.

### Responsibilities of the Directors

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any 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.

# Directors' Report (continued)

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

The financial statements are presented on the Heath Lambert website. The directors are responsible for the maintenance and integrity of the Group's website. The work carried out by the auditors does not involve consideration of the maintenance and integrity of the Group's website and, accordingly, the auditors accept no responsibility for the presentation of the financial statements on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

**Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board

**HL Corporate Services Limited**
Company Secretary
Friary Court
Crutched Friars
London, EC3N 2NP

27 April 2006

# Independent Auditors' Report

**To the Shareholders of Heath Lambert Limited**

We have audited the financial statements of Heath Lambert Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective Responsibilities of Directors and Auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom 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). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement and the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**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 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 Company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

3 May 2006

# Profit and Loss Account

For the year ended 31 December 2005

| | Notes | Before exceptional items £m | Exceptional items £m | **Total 2005 £m** | Total 2004 £m |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| *Continuing operations* | | 110.5 | – | **110.5** | 122.3 |
| Discontinued operations | 5 | – | – | **–** | 3.1 |
| | | 110.5 | – | **110.5** | 125.4 |
| **Administrative Expenses** | | | | | |
| Management charge from former Group undertaking | 8 | (37.3) | – | **(37.3)** | (122.0) |
| Other administrative expenses | 8, 7 | (77.6) | (8.4) | **(86.0)** | (57.8) |
| | | (114.9) | (8.4) | **(123.3)** | (179.8) |
| **Other Operating Income** | | | | | |
| Management charges to Group undertakings | | 11.0 | – | **11.0** | – |
| ***Operating Profit/(Loss)*** | | | | | |
| Continuing operations | 5 | 6.6 | (8.4) | **(1.8)** | (57.5) |
| Discontinued operations | 5 | – | – | **–** | 3.1 |
| **Total Operating Profit/(Loss)** | | 6.6 | (8.4) | **(1.8)** | (54.4)* |
| Exceptional item: Profit on disposal of operations | 7 | – | 0.2 | **0.2** | 4.8 |
| Interest receivable | 6 | 4.5 | – | **4.5** | 3.1 |
| Interest payable and similar charges | | (0.3) | – | **(0.3)** | – |
| **Profit/(Loss) on Ordinary Activities before Taxation** | 8 | 10.8 | (8.2) | **2.6** | (46.5) |
| **Taxation** | 9 | (1.5) | – | **(1.5)** | (0.3) |
| **Profit/(Loss) on Ordinary Activities after Taxation and Retained Profit/(Loss) for the Year** | 22 | 9.3 | (8.2) | **1.1** | (46.8) |

*Operating loss in 2004 includes exceptional administrative expenses of £53.9m.

There were no recognised gains or losses in the year other than those reflected in the Profit and Loss Account.

The notes on pages 12 to 22 form part of these financial statements.

# Balance Sheet

As at 31 December 2005

| | Notes | 2005 £m | 2004 £m |
|---|---|---|---|
| **Fixed Assets** | | | |
| Intangible assets | 10 | **6.3** | 0.6 |
| Tangible assets | 11 | **7.9** | - |
| Investments in subsidiary undertakings | 12 | **20.0** | - |
| | | **34.2** | 0.6 |
| **Current Assets** | | | |
| Debtors: - Amounts falling due within one year | 14 | **422.1** | 591.7 |
| - Amounts falling due after more than one year | 14 | **8.9** | 1.5 |
| Current asset investments | 15 | **-** | 50.6 |
| Cash at bank and in hand | 16 | **120.4** | 66.0 |
| | | **551.4** | 709.8 |
| Creditors: - Amounts falling due within one year | 17 | **(531.6)** | (652.5) |
| **Net Current Assets** | | **19.8** | 57.3 |
| **Total Assets Less Current Liabilities** | | **54.0** | 57.9 |
| Creditors: - Amounts falling due after more than one year | 18 | **(5.3)** | (11.1) |
| Provisions for liabilities and charges | 20 | **(15.7)** | (14.9) |
| ***Net Assets*** | | ***33.0*** | *31.9* |
| **Capital and Reserves** | | | |
| Called up share capital | 21 | **75.0** | 75.0 |
| Profit and loss account | 22 | **(42.0)** | (43.1) |
| **Equity Shareholders' Funds** | 23 | **33.0** | 31.9 |

Approved by the Board of Directors on 27 April 2006 and signed on its behalf by:

**R N Thomas**
Director

**A Colosso**
Director

The notes on pages 12 to 22 form part of these financial statements.

# Notes to the Financial Statements

## 1. Trading Activities

During the year, the Company's business was, in part, carried out by certain insurance broking Group undertakings acting as agents for the Company. No income was receivable by these Group undertakings and each was indemnified by the Company for all expenses and liabilities arising out of such agency. All income, expenses, assets and liabilities relating to this agency business are included in these financial statements.

## 2. Accounting Policies

### (a) Group Financial Statements and Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Group financial statements have not been prepared at 31 December 2005 as the Company is a wholly owned subsidiary undertaking of another body corporate incorporated in Great Britain and these financial statements will be publicly available. The results of the Company and its subsidiaries have been included in the group financial statements of HLG Holdings Limited.

The directors have reviewed the Company's accounting policies and consider them to be appropriate in accordance with FRS18's objectives of relevance, reliability, comparability and understandability.

### (b) Turnover

Turnover represents the aggregate of net brokerage, fees, commission and other related income, including that arising as a result of run-off activity in the markets. Brokerage is recognised at the date of inception of the risk subject to the placement having been completed to the client's satisfaction. In instances where the inception of the risk does not relieve the Company of all contractual obligations, an element of brokerage is deferred and subsequently released to the profit and loss account as these obligations are discharged.

The directors have enhanced the estimation technique for deferring income, including a reflection of the effect of discounting. The estimated effect of the change for discounting is an increase in profit for the year of £0.7m. It is not practicable to quantify the effect on results for the current year of the other enhancements made.

Brokerage on multi-year policies that are non-cancellable is recognised at the date of inception of the risk, providing that the brokerage is not dependent on future events. Brokerage on multi-year policies, which can be cancelled or varied after the inception of the risk is apportioned on an annual basis.

### (c) Goodwill

Goodwill arising from business combinations, being the excess of the fair value of the consideration over the fair value of the assets acquired, has been capitalised at cost and is being amortised on a straight-line basis over the estimated useful life, not exceeding twenty years.

### (d) Taxation

*Corporation tax payable is provided on taxable profits at the current rate.*

Deferred taxation is recognised in respect of all timing differences between taxable and booked income and expenditure that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised to the extent that they are recoverable. Deferred taxation is not recognised on permanent differences. Deferred tax balances are not discounted.

### (e) Foreign Currencies

Assets and liabilities in foreign currencies are expressed in sterling at exchange rates ruling at the balance sheet date. Income earned in foreign currencies is recognised in the profit and loss account at the exchange rate ruling at the date of the transaction or, where a related forward exchange contract has been entered into, at the rate specified in the forward contract. The Company enters into foreign exchange contracts to manage the currency exposures that arise from its income denominated in foreign currencies. Changes in the fair value of instruments used for hedging future income are not recorded in the financial statements until the hedged income is recognised. All exchange differences are dealt with in the result before taxation.

### (f) Fixed Assets

Tangible assets are stated at cost less accumulated depreciation. Depreciation is provided in equal annual instalments at rates calculated to provide for the cost of the assets over their anticipated useful lives as follows:

| | | |
|---|---|---|
| Furniture and equipment | – | Five years |
| Motor vehicles | – | Four years |

# Notes to the Financial Statements

**(g) Systems Development Costs**

External costs incurred in connection with the development of improved data handling systems are capitalised. These costs are then written off in equal annual instalments over three years, commencing with the year in which benefits arise from the introduction of these systems. The carrying value is assessed annually and further provision, where appropriate, is made for any impairment in value.

**(h) Finance Leases**

Assets acquired under finance leases are capitalised as tangible fixed assets and stated at cost less accumulated depreciation. Interest included within lease payments is charged to the profit and loss account over the period of the lease at a rate which reflects the capital repayments outstanding.

**(i) Investments in Subsidiary Undertakings**

Investments in subsidiary undertakings are stated at cost less provision for any impairment in value.

**(j) Insurance Broking Debtors and Creditors**

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable as principals for amounts arising from such 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 transactions between clients 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 insurance broking creditors.

*The position of the insurance broker as agent means that the credit risk is generally borne by the principals. There can 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 exposures. However, the total of insurance broking debtors appearing in the balance sheet is 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. Large changes in both insurance broking debtors and creditors can result from comparatively small cash settlements and, 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 insolvency it is generally abandoned. FRS5 '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.

**(k) Current Asset Investments**

Investments in securities are held at market value. All gains and losses are taken to the profit and loss account.

**(l) Interest Receivable**

Interest receivable is recognised in the profit and loss account on an accruals basis.

**(m) Pension Costs**

All employees were employed by Heath Lambert Management Limited until 26 May 2005.

Contributions in respect of defined contribution pension schemes are charged to the profit and loss account as incurred.

Under an agreement between the Company and Heath Lambert Management Limited, Heath Lambert Management Limited recharged only the current service costs of the Group's former final salary pension schemes and the contributions in respect of defined contribution schemes. Accordingly, the Company accounted for all pension contributions as if they were defined contribution arrangements.

**(n) Cash Flow Statement**

As at 31 December 2005, the Company was a wholly owned subsidiary of HLG Holdings Limited and is included in the consolidated financial statements of that Company, which will be publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 (Revised 1996).

# Notes to the Financial Statements

### 3. Group Restructuring

On 26 May 2005, Heath Lambert Holdings Limited (previously the ultimate holding Company) sold its interest in Heath Lambert Group Limited now Nameshell 1 Limited, an intermediate holding company of Heath Lambert Limited, to HLG Holdings Limited.

The purchase by HLG Holdings Limited was backed by existing and new investors. The transaction also involved a capital restructuring, which included a reduction of the Group's senior debt and the elimination of the Group's former pension liabilities in respect of its final salary pension schemes.

Prior to the transaction, Heath Lambert Management Limited had been the principal employer and service provider in the UK for the Heath Lambert Group. As a result of the transaction, all staff have been transferred under TUPE to Heath Lambert Limited, which is now the Group's main employer and service provider in the UK. Heath Lambert Management Limited, having no further operations, has been placed into administrative receivership.

Prior to the restructure Heath Lambert Management Limited incurred the majority of expenses associated with the Company's operations and recharged them to Heath Lambert Limited by way of management charge. Since the restructure, these expenses are now incurred directly by Heath Lambert Limited.

Heath Lambert Limited acquired from Heath Lambert Management Limited certain assets and liabilities as detailed below with consideration being settled by way of inter company debt. The net assets acquired were as recorded in the balance sheet of Heath Lambert Management Limited and were considered to be stated at their fair value, except that a fair value adjustment was required to reduce provisions for liabilities and charges by £4.2m.

| | £m |
|---|---|
| Tangible Fixed Assets | **7.9** |
| Debtors and Prepayments | **12.8** |
| Cash | **1.8** |
| Creditors and Accruals | **(9.8)** |
| Provisions for Liabilities and Charges | **(3.6)** |
| Net assets | **9.1** |
| **Satisfied by Inter company Debt** | **9.1** |

The final salary pension schemes previously operated by Heath Lambert Management Limited have now entered the Pension Protection Fund assessment period. The Group no longer has any defined benefit schemes. All staff have the opportunity to participate in the new Group Personal Pension Plan, which is a defined contribution plan.

The Pensions Regulator confirmed by way of a Clearance Statement that it would not take regulatory action over the restructure. Based on professional advice and the legislation introduced in April 2005, the directors are satisfied that the Company has no further liability related to the Group's previous defined benefit pension scheme obligations.

As part of the restructure, Heath Lambert Limited provided against an amount of £52.1m receivable from Heath Lambert Management Limited. £46.2m of this loss was recognised in the 2004 financial statements, leaving a loss of £5.9m recognised in the year under review.

A loss of £1.8m is recognised in these financial statements in respect of payments made to Heath Lambert Holdings Limited's lenders under guarantees entered into by the Company on 17 December 2003 to secure the borrowings of its former parent.

# Notes to the Financial Statements

### 4. Segmental Reporting

All turnover relates to insurance broking and related services. The turnover, profit before taxation and the net assets of the Company relate almost entirely to activities based in the UK. The geographic analysis of turnover by location of client is as follows:

| | **2005 £m** | 2004 £m |
|---|---|---|
| UK | 85.3 | 87.7 |
| Continental Europe | 9.6 | 13.4 |
| Asia & Australasia | 3.8 | 6.1 |
| The Americas | 10.2 | 16.8 |
| Other | 1.6 | 1.4 |
| | **110.5** | 125.4 |

### 5. Discontinued Operations

| | **2005 Continuing £m** | **2005 Discontinued £m** | **2005 Total £m** | 2004 Continuing £m | 2004 Discontinued £m | 2004 Total £m |
|---|---|---|---|---|---|---|
| Turnover | **110.5** | **–** | **110.5** | 122.3 | 3.1 | 125.4 |
| Administration expenses | **(123.3)** | **–** | **(123.3)** | (179.8) | – | (179.8) |
| Other operating income | **11.0** | **–** | **11.0** | – | – | – |
| Operating (loss)/profit | **(1.8)** | **–** | **(1.8)** | (57.5) | 3.1 | (54.4) |

### 6. Interest Receivable

| | **2005 £m** | 2004 £m |
|---|---|---|
| Interest receivable and other similar income | **4.5** | 3.1 |

### 7. Exceptional Items

#### a) Profit on Disposal of Operations

| | **2005 £m** | 2004 £m |
|---|---|---|
| Disposal of Latin American portfolios | **–** | 4.0 |
| Sale of other brokerage portfolios | **0.2** | 0.8 |
| **Total Profit on Disposal of Operations** | **0.2** | 4.8 |

The profit on sale of other brokerage portfolios has arisen following the determination of contingent sale proceeds due on sales completed in previous years. Additional profits will be taxed at 30%.

#### b) Other Exceptional Costs

| | **2005 £m** | 2004 £m |
|---|---|---|
| Payments made under bank guarantees | **1.8** | – |
| Restructuring costs | **4.4** | – |
| Dilapidation costs | **(3.7)** | 7.7 |
| Loss on providing against amounts due from Group undertaking | **5.9** | 46.2 |
| **Total Other Exceptional Costs** | **8.4** | 53.9 |

**Payments Made Under Bank Guarantees**

As part of the May 2005 Group restructuring, the Company was required to make a payment of £1.8m in respect of bank guarantees entered into on 17 December 2003 to secure the borrowings of Heath Lambert Holdings Limited, formerly the ultimate parent undertaking. No corporation tax relief is available in respect of this exceptional expense.

# Notes to the Financial Statements

### 7. Exceptional Items (continued)

**Restructuring Costs**

The Company incurred legal and professional costs associated with the May 2005 restructuring. Since this date the company has continued to incur redundancy and other costs associated with restructuring the business.

**Dilapidations Costs**

During the year, the directors reassessed the Company's exposure to dilapidations costs relating to its leasehold property. The provision at the end of the year represents the best estimate of the liability incurred to date under the lease agreements. Corporation tax of £1.1m has been charged in respect of this exceptional reduction in expenses.

**Loss on Providing Against Amount Due from Group Undertaking**

This loss was created as a result of the Company providing, in full, against an amount due from Heath Lambert Management Limited, formerly a fellow Group undertaking. Following the capital restructuring described in note 3 on page 14, Heath Lambert Management Limited has been placed into administrative receivership and in the directors' opinion this receivable is no longer recoverable. No corporation tax relief was available in respect of this exceptional loss.

### 8. Profit/(Loss) on Ordinary Activities before Taxation

(Loss)/Profit on ordinary activities before taxation is stated after charging the following:

| | **2005**<br>**£m** | 2004<br>£m |
|---|---|---|
| Wages and salaries | **57.9** | 59.4 |
| Social security costs | **6.5** | 6.1 |
| Other pension costs | **5.8** | 6.9 |
| Amortisation of goodwill (note 10) | **0.2** | – |

Prior to 26 May 2005, all administrative functions were performed by staff employed by Heath Lambert Management Limited, formerly a fellow Group undertaking. The net management charge of £37.3m (2004: £122.0m) levied represents the allocation of salary and other costs associated with the administration of the Company for the period January to May 2005.

During the year the Company recharged expenses totalling £11.0m to fellow Group undertakings.

Auditors' remuneration for audit services amounted to £0.3m (2004: £0.3m). Auditors' remuneration for non-audit services amounted to £0.1m (2004: £0.2m).

*During the year, an average of 1,674 staff (2004: 1,755) worked for the Company. All were employed by Heath Lambert Management Limited* until 26 May 2005; on that date their employment transferred to Heath Lambert Limited under TUPE.

### 9. Taxation on Profit/(Loss) on Ordinary Activities

The corporation taxation charge represents UK corporation tax calculated at 30% of profits chargeable to tax.

| **Analysis of (Credit)/Charge in Year** | **2005**<br>**£m** | 2004<br>£m |
|---|---|---|
| **Current Tax** | | |
| UK corporation tax on profits of the year | **–** | – |
| *Adjustments in respect of prior years* | **–** | (0.1) |
| | **–** | (0.1) |
| **Deferred Tax** | | |
| UK deferred tax charge for the year | **1.9** | 0.4 |
| Adjustments in respect of prior years | **(0.4)** | – |
| | **1.5** | 0.4 |
| Tax on Profit on Ordinary Activities | **1.5** | 0.3 |

# Notes to the Financial Statements

### 9. Taxation on Profit/(Loss) on Ordinary Activities (continued)

| **Reconciliation of Corporation Tax (Credit)/Charge** | **2005 £m** | 2004 £m |
|---|---|---|
| Profit/(Loss) on Ordinary Activities before Taxation | **2.6** | (46.5) |
| Charge/(Credit) at standard rate of corporation tax in UK of 30% | **0.8** | (13.9) |
| The UK corporation tax charge for the period has been affected by: | | |
| – Adjustments to tax charge in respect of previous periods | **–** | (0.1) |
| – Expenses not deductible for tax purposes | **2.5** | 14.1 |
| – Capital allowances for period in excess of depreciation | **(1.6)** | – |
| – Utilisation of tax losses | **(1.9)** | (0.4) |
| – Capital gains | **0.2** | – |
| – Imputed taxable income | **1.0** | 0.2 |
| – Group relief received for nil payment | **(1.0)** | – |
| Current Tax Charge for Year (as above) | **–** | (0.1) |

**Deferred Taxation Assets**

Deferred tax assets have been recorded as follows:

| | **2005 £m** | 2004 £m |
|---|---|---|
| Accelerated capital allowances | **8.9** | – |
| Short term and other timing differences | **–** | 1.5 |

| Movements in deferred taxation: | |
|---|---|
| At 1 January 2005 | **1.5** |
| Transferred from Heath Lambert Management Limited | **8.9** |
| Debit to profit and loss account | **(1.5)** |
| **At 31 December 2005** | **8.9** |

Based on profit forecasts, the directors expect the Company to be able to claim capital allowances in excess of depreciation in future years.

### 10. Intangible Assets

| | Goodwill arising on acquisitions £m |
|---|---|
| **Cost** | |
| At 1 January 2005 | 0.9 |
| Additions | 5.9 |
| **At 31 December 2005** | **6.8** |
| **Amortisation** | |
| At 1 January 2005 | 0.3 |
| Charge for the year | 0.2 |
| **At 31 December 2005** | **0.5** |
| **Net Book Value** | |
| **At 31 December 2005** | **6.3** |
| At 31 December 2004 | 0.6 |

The addition to goodwill is in respect of the acquisition of a team of brokers in the UK. The total purchase consideration was £5.9m. £3.0m of this consideration had been settled at the year end with an additional £2.9m to be paid in instalments ending in 2007.

# Notes to the Financial Statements

### 11. Tangible Assets

| Group | Systems development costs £m | Motor vehicles £m | Furniture and equipment £m | Total £m |
|---|---|---|---|---|
| **Cost and Valuation** | | | | |
| At 1 January 2005 | – | – | – | – |
| *Transfer from Heath Lambert Management Limited* | 8.7 | 2.9 | 21.9 | 33.5 |
| Additions | 1.6 | – | 0.9 | 2.5 |
| Disposals | – | (1.1) | – | (1.1) |
| **At 31 December 2005** | **10.3** | **1.8** | **22.8** | **34.9** |
| **Depreciation** | | | | |
| At 1 January 2005 | – | – | – | – |
| Transfer from Heath Lambert Management Limited | 5.6 | 1.7 | 18.3 | 25.6 |
| Provided in the period | 0.8 | 0.2 | 1.1 | 2.1 |
| *Disposals* | – | *(0.7)* | – | *(0.7)* |
| **At 31 December 2005** | **6.4** | **1.2** | **19.4** | **27.0** |
| **Net Book Value at 31 December 2005** | **3.9** | **0.6** | **3.4** | **7.9** |
| Net Book Value at 31 December 2004 | – | – | – | – |

The net book values of furniture and equipment and of motor vehicles included in fixed assets held under finance leases were £nil and £0.5m (2004: £nil and £nil) respectively.

### 12. Investments in Subsidiary Undertakings

| | Company £m |
|---|---|
| Cost at 1 January 2005 | – |
| Transferred from Group undertakings | 20.0 |
| At 31 December 2005 | 20.0 |

As part of the restructuring in May 2005, the Company purchased 100% of the share capital in Heath Lambert Consulting Limited and Heath Lambert Overseas Limited for total consideration of £20.0m from Friary Intermediate Limited, the immediate parent undertaking of Heath Lambert Limited. The consideration was settled by way of a reduction in inter company debt.

Details of the Company's principle subsidiary undertakings are shown below.

| **Principal subsidiary undertaking** | **Country of Incorporation** | **Percentage of holding** | **Activity** |
|---|---|---|---|
| Heath Lambert Overseas Limited | United Kingdom | 100% | Holding Company |
| Heath Lambert Consulting Limited | United Kingdom | 100% | Financial Services |

In the opinion of the directors, the value of the investments is at least equal to the total amounts shown above.

### 13. Net Fiduciary Assets

The following fiduciary assets and liabilities held by the Company have been included in net current assets:

| | **2005 £m** | 2004 £m |
|---|---|---|
| Insurance broking debtors (note 14) | **406.2** | 521.2 |
| Fiduciary investments (note 15) | **–** | 50.6 |
| Fiduciary cash and deposits (note 16) | **111.0** | 66.0 |
| Insurance broking creditors (note 17) | **(502.5)** | (637.7) |
| Net Fiduciary assets | **14.7** | 0.1 |

# Notes to the Financial Statements

### 14. Debtors

***Amounts Falling Due Within One Year:***

| | 2005 £m | 2004 £m |
|---|---|---|
| Insurance broking debtors | **406.2** | 521.2 |
| Amounts owed by Group undertakings | **2.7** | 66.2 |
| Prepayments | **8.2** | – |
| Other debtors | **5.0** | 4.3 |
| Total Debtors | **422.1** | 591.7 |
| **Amounts Falling Due After More Than One Year:** | | |
| Deferred taxation (see note 9) | **8.9** | 1.5 |
| Total Debtors | **431.0** | 593.2 |

Insurance broking debtors include £0.6m (2004: £3.5m) owed by Group undertakings.

### 15. Current Asset Investments

| | 2005 £m | 2004 £m |
|---|---|---|
| Short term investments | **–** | 50.6 |

Short term investments consisted primarily of government bonds and corporate loan stock. These investments were held for the benefit of insurance broking creditors and were not available for general corporate purposes.

In the opinion of the directors, the value of these investments was at least equal to the amount shown above.

### 16. Cash at Bank and in Hand

| | 2005 £m | 2004 £m |
|---|---|---|
| Cash at bank and in hand | **120.4** | 66.0 |

The Company holds monies in insurance broking bank accounts for the benefit of insurance broking creditors, which are not available for general corporate purposes. As at 31 December 2005, this amounted to £111.0m (2004: £66.0m).

### 17. Creditors – Amounts Falling Due Within One Year

| | 2005 £m | 2004 £m |
|---|---|---|
| Insurance broking creditors | **502.5** | 637.7 |
| Amounts owing to Group undertakings | **4.6** | 8.9 |
| Other creditors | **6.6** | 0.3 |
| Other taxation and Social Security | **1.8** | – |
| Obligations under finance leases | **0.4** | – |
| Accruals and deferred income | **15.7** | 5.6 |
| Total Creditors | **531.6** | 652.5 |

Insurance broking creditors include £4.0m (2004: £2.8m) owing to Group undertakings.

### 18. Creditors – Amounts Falling Due After More Than One Year

| | 2005 £m | 2004 £m |
|---|---|---|
| Other creditors | **1.2** | – |
| *Obligations under finance leases* | **–** | – |
| Accruals and deferred income | **4.1** | 11.1 |
| Total Creditors | **5.3** | 11.1 |

# Notes to the Financial Statements

### 19. Commitments

| Operating Leases which Expire | Land and Buildings 2005 £m | Land and Buildings 2004 £m | Other 2005 £m | Other 2004 £m |
|---|---|---|---|---|
| Within one year | 0.1 | – | 0.1 | – |
| In the second to fifth years inclusive | 6.2 | – | – | – |
| In over five years | 0.9 | – | – | – |
| | 7.2 | – | 0.1 | – |

The majority of leases of land and buildings are subject to rent reviews.

| Obligations Under Finance Leases Due | 2005 £m | 2004 £m |
|---|---|---|
| Within one year | **0.4** | – |
| Within one to two years | – | – |
| | **0.4** | – |

There were no capital commitments entered into as at 31 December 2004.

### 20. Provisions for Liabilities and Charges

| | Provision for property costs £m | Provision for litigation £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 January 2005 | 7.8 | 7.1 | – | 14.9 |
| Transferred from Heath Lambert Management Limited | 1.3 | – | 2.3 | 3.6 |
| Utilised during the year | (0.1) | (0.8) | (0.2) | (1.1) |
| Provided/(Released) in the year | (3.4) | 1.7 | – | (1.7) |
| **Balance at 31 December 2005** | **5.6** | **8.0** | **2.1** | **15.7** |

#### a) Litigation Provisions

The Company faces a number of complex and lengthy litigation matters which have arisen in the ordinary course of business, the resolution of which is uncertain. Such actions, which are a common feature for companies trading in the international insurance markets, seek to recover amounts that, if awarded, would be significant. Having taken appropriate legal advice, the directors have provided amounts which they consider to be a realistic appraisal of the ultimate likely cost of these various claims against the Company. It is not practical to specifically indicate the likely timing of claim settlements. The provision is subject to regular review by the Group's legal department, external legal advisers and the directors. Included in other debtors is an amount of £4.0m (2004: £3.1m) recoverable from the Group's captive insurer in respect of these matters.

#### b) Property Provision

This provision is the estimated liability in respect of wear and tear on the Company's leasehold properties as at 31 December 2005. This provision will be utilised as the leases on the Company's leasehold properties expire. The directors anticipate that the majority of this liability will fall due by December 2009.

#### c) Other Provisions

Other provisions comprise primarily the costs of providing for medical insurance for former employees. This provision will be utilised over the life expectancy of the former employees.

### 21. Called-up Share Capital

| | 2005 £m | 2004 £m |
|---|---|---|
| 75,000,000 authorised, allocated and fully paid ordinary shares of £1 each | **75.0** | 75.0 |

# Notes to the Financial Statements

### 22. Profit and Loss Account

| | Profit and loss account £m |
|---|---|
| At 1 January 2005 | (43.1) |
| Retained profit for the year | 1.1 |
| **At 31 December 2005** | **(42.0)** |

The cumulative amount of goodwill eliminated directly against reserves at 31 December 2005, was £4.8m (2004: £4.8m). This goodwill was eliminated against reserves in accordance with the accounting policies in place prior to the implementation of FRS10 'Goodwill and Intangible Assets' in 1999. If certain elements of the Company's trade were to be disposed of, this goodwill would be charged to the profit and loss account in the year of disposal.

### 23. Reconciliation of Movements in Shareholders' Funds

| | 2005 £m | 2004 £m |
|---|---|---|
| Profit/(Loss) for the financial year | **1.1** | (46.8) |
| Net addition to/(reduction in) shareholders' funds | **1.1** | (46.8) |
| Opening shareholders' funds | **31.9** | 78.7 |
| **Closing Shareholders' Funds** | **33.0** | 31.9 |

### 24. Directors and Employees

The aggregate of directors' emoluments excluding pension contributions borne by this Company was £388,828 (2004: £925,422). The aggregate Company pension contributions to defined contribution schemes in respect of directors was £15,676 (2004: nil).

The emoluments of the highest paid director whose emoluments were borne by this company were £234,809 (2004: £178,681). The contribution to a defined contribution pension scheme in respect of the highest paid director was £8,166 (2004: nil).

The emoluments of M A Bruce, A Colosso and R J Sansom were borne by the ultimate parent undertaking, HLG Holdings Limited, and its predecessor Heath Lambert Holdings Limited. It is not practicable to apportion these emoluments between Group companies. These emoluments are disclosed within the accounts of the ultimate parent undertaking HLG Holdings Limited.

As at 31 December 2005, retirement benefits were accruing to four directors under defined contribution schemes (2004: one). As at 25 May 2005 four directors were accruing benefits under the Group's former defined benefit schemes. Upon these schemes entering the Pension Protection Fund on 26 May 2005, none of these directors continued to accrue benefits under these schemes.

### 25. Transactions Involving Directors and Others

In the normal course of the Company's broking activities, risks may be placed with Lloyd's Syndicates in which directors and senior employees participate, on the same basis as such risks are placed with other Lloyd's Syndicates.

### 26. Commitments and Contingent Liabilities

**a) Securities and Guarantees over Group Banking Facilities**

The Company and certain fellow Group Companies are guarantors of loan facilities provided by Royal Bank of Scotland/National Westminster Bank plc and other lenders to the Company, HLG Holdings Limited and certain fellow Group undertakings.

At 31 December 2005, there was £48.0m drawn down under these facilities (2004: £108.7m under previous facilities). The potential additional contingent liability in respect of the maximum drawdown under these facilities was £5.0m (2004: £nil under previous facilities). At 31 December 2005, the facilities were secured against the assets and liabilities of the Company under a deed dated 26 May 2005 and the facilities also continued to be secured by fixed and floating charges over the assets of the ultimate parent company, HLG Holdings Limited and certain fellow Group undertakings.

As at 27 April 2006, there was £41.7m drawn down under these facilities. The potential additional contingent liability in respect of the maximum drawdown under these facilities on 27 April 2006 was £11.3m.

The loans under the above facilities are due for repayment in instalments up to 31 December 2008.

# Notes to the Financial Statements

### 26. Commitments and Contingent Liabilities (continued)

#### b) Foreign Exchange Contracts

The Company uses forward contracts to hedge against fluctuations in foreign currency exchange rates.

The Company is committed to a US$10m extendable 'forward plus' contract with an expiry date of 29 March 2006, designed to hedge the Company's expected US$ income over that period. On the 'expiry' date, the Company will sell US$10m and buy sterling at a worse case rate – the 'base rate' (US$1.8050), but can benefit from a lower £/$ exchange rate on that date, so long as the limit rate (US$1.6990) has not been reached between the transaction inception and expiry date. Should the 'limit' rate be reached at any point during this period, then the Company's sale of US$10m will be fixed at the 'base rate' for delivery on the respective value date.

On 29 March 2006, the Company agreed to extend these contracts for a further two quarters, as two forward plus contracts, under the same terms (i.e. 'base' at US$1.8050 and 'limit' at US$1.6990).

The maximum amount of US Dollars that can be sold as a result of these contracts is US$30m at a worse case rate of US$1.8050.

#### c) Capital Commitments

There were no capital commitments in respect of future capital expenditure on fixed assets at 31 December 2005 (2004: £nil).

### 27. Related Party Disclosures

As a wholly owned subsidiary of HLG Holdings from 26 May 2005, the Company has taken advantage of the exemption in FRS8 'Related Party Disclosures' not to disclose transactions during the year with other members of the Group headed by HLG Holdings Limited.

Prior to the restructuring on 26 May 2005, Heath Lambert Management Limited charged the Company £37.3m in respect of staff and other costs incurred on behalf of the Company. As at 1 January 2005, the Company was owed £46.2m by Heath Lambert Management Limited. On 26 May 2005 an amount of £52.1m was due from Heath Lambert Management Limited. This amount was provided against in full following Heath Lambert Management Limited being placed into administration on the same date. £46.2m of this loss was recognised in the 2004 financial statements, the remaining £5.9m is recognised in these financial statements.

At 1 January 2005 the Company was owed £9.7m by Heath Lambert Holdings Limited. On 14 January 2005, the Company received £25.0m of additional funding from Heath Lambert Holdings Limited. As at 25 May 2005 an amount of £13.7m was owed by the Company to Heath Lambert Holdings Limited. This amount was repaid on 26 May 2005 as part of the restructuring transaction.

As described in note 3, as part of the capital restructure, the Company paid an amount of £1.8m to Heath Lambert Holdings Limited's lenders in satisfaction of guarantees entered into on 17 December 2003 to secure the borrowings of that Company.

### 28. Ultimate Parent Company

At 31 December 2005, the Company's ultimate parent undertaking was HLG Holdings Limited, a company registered in England. The Company's immediate parent undertaking was Friary Intermediate Limited, a company registered in England and Wales.

Prior to the May 2005 restructure the Company's ultimate parent undertaking was Heath Lambert Holdings Limited, a company registered in England and Wales.

The smallest and largest undertaking for which Group financial statements are prepared and of which the Company was a member, are those headed by HLG Holdings Limited. Copies of these Group financial statements will be available from the Company Secretary at Friary Court, Crutched Friars, London EC3N 2NP.