Heath Lambert Limited

Annual Report and Financial Statements 2006

Heath Lambert Group

Surprisingly different

Appointments strengthen the company's teams

Disposal of overseas operations is almost complete

Focus on UK retail and specialist wholesale operations

Over 20% increase in new business generation

Revenue growth in key operational areas

Trading profit up from £11.1m to £14.1m

UK operating revenue of £106.9m

Profit target exceeded

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Chief Executive's Review

2006 was a very successful year for Heath Lambert. We expanded the business and achieved revenue growth in key operational areas and increased profitability. In addition, we invested further in our personnel, our operations and in the range of the solutions and services we offer to clients and partners.

That said, the year was not without its challenges; the continuing soft market, increasing consolidation, and the stringent regulations governing our industry to name a few. So it is particularly gratifying that we have made such progress at a time when many of our competitors are having to rethink their strategies.

Heath Lambert Limited Summary Profit and Loss Account

	Total 2006 £m	Total 2005 £m
Turnover	**106.9**	110.5
Expenses	**(114.6)**	(114.9)
Other operating income	**16.2**	11.0
Interest receivable	**5.6**	4.5
Trading profit*	**14.1**	**11.1**
Exceptional items**	**(1.6)**	(8.2)
Interest payable	**(0.6)**	(0.3)
Taxation	**(1.8)**	(1.5)
Profit for year	**10.1**	**1.1**

* *Trading profit is defined as operating profit as reported in the Profit and Loss Account plus interest receivable, and before exceptional items.*

** See note 4 on page 18 for details

The UK's leading independent broker

Having almost completed the disposal of Heath Lambert's overseas operations, we are now focusing on our UK retail and specialist operations. We have successfully consolidated our competitive position as the UK's leading independent broker. That said, we remain committed to our international wholesale and reinsurance operations. We continue to be an active member of the HLA Global retail servicing network; providing first class insurance solutions and services to clients and partners in more than 90 countries and territories around the world.

Unlike many of our competitors we benefit from being independent. It gives us that all important flexibility and agility, which enables us to be both proactive and reactive with regards to changes in the market and in customer needs. This, combined with our tenacious approach to conducting business, makes us ideally placed to take advantage of the business opportunities open to us.

Today, we employ over 1600 people in 23 offices across the UK, all of whom are committed to ensuring that we design and deliver comprehensive and appropriate insurance solutions to an expanding and enviable client base. In addition, we are all clearly focused on providing the very highest possible standards of customer service, ensuring we exceed our clients' expectations time and time again.

Trading profit of
£14.1m

UK operating revenue of
£106.9m

over 20%
increase in new
business generation

Straightforward approach to business

Our operations and approach to conducting business are transparent and flexible. Our market knowledge, expertise, flexibility and tenacity ensure that we are able to think around the specific challenges our clients face to develop and deliver creative, comprehensive and cost effective insurance solutions. A good example of our ability to develop such solutions is our trade association scheme for asbestos removal contractors, which won the Broker Initiative of the Year at the prestigious 2006 British Insurance Awards.

2006 saw us not only retain existing clients but also secure a raft of new business. Most notably we added industry giants from the pharmaceutical, food and consumer retail sectors, financial services companies, construction firms and transportation organisations to our diverse customer base.

We forged partnerships with some of the leading medical charities and affinity groups; launching bespoke and specialist schemes, which effectively meet the specific insurance needs of their members and the wider community. In addition, our subsidiary Heath Lambert Consulting Limited has been leading the way with its ground breaking work on the complex issues surrounding final salary pension schemes.

Such successes demonstrate our ability to compete for and win the most prestigious of accounts, to work effectively with businesses of all sizes and at all levels of complexity; delivering the right solution, at the right price.

winner

ACAD scheme for asbestos removal contractors wins British Insurance Awards

Profit target exceeded

Offices and people in the right places

2006 also saw us finalise our internal restructuring and reorganisation; culminating in the consolidation of our London offices into one main head office in the City of London. The benefits of having everyone under one roof are already apparent, with greater interaction between the teams and the development of an integrated approach to selling and knowledge sharing.

The opening of our Southampton office in 2006 continues our planned expansion across the UK. We believe that 2007 will see us expand further, building on our regional presence with both new offices and new teams of people. Such expansion will enable us to serve our clients better, as well as giving wider market reach to explore new business opportunities in the regional markets.

In addition, our offering has been enhanced and strengthened by the recruitment of some highly skilled and knowledgeable individuals, who join our already strong teams. Among them we welcomed senior management, finance, engineering, employee benefits, professional risk, projects, sports, marine and environmental experts.

The hard work that we have put in over the last couple of years has put us ahead of many of our competitors, who are being forced to reassess their business models in the light of changes in the market.

Regulation and standard of business

We have embraced the regulation and legislation that increasingly governs the management and activity of our industry; the imposition of new laws and rules are important to ensure that best practice standards are employed by all providers, across all areas of business.

Heath Lambert Limited is authorised and regulated by the Financial Services Authority (FSA). We continuously assess and review all of our staff, their performance and our business practices and procedures. Such evaluations support our compliance with all the regulations that apply to us, and that we have the required knowledge and expertise to ensure we can deliver the advice and standards of service our clients and partners expect.

Contract certainty

One of the most significant requirements we have had to address is that of contract certainty, which has presented a fundamental change to UK insurance practices and will shape how we do business from now on. Essentially it means having all the terms and conditions of an insurance policy agreed at the point of signing. It signals an end to the 'deal now, details later' culture, which has long been regarded as a weakness of the UK market in comparison to its international rivals.

Despite the negative noise and 'head in the sand' views articulated on contract certainty in the press, we have got on with making the changes necessary to service clients in the best way for them, our market partners and for us. In fact, our contract certainty project has been very successful and we have exceeded the market target for this area.

Focus on UK retail and specialist wholesale operations

£11.3m
income for our Major Accounts Group

Financial performance

Heath Lambert's financial position has strengthened in 2006, with UK operating revenue of £106.9 million and trading profit up from £11.1 million to £14.1 million. It is also encouraging to see that while we remain focused on ensuring we retain our existing client accounts, our new business generation increased to £33.8 million, which represents an increase of over 20 per cent compared to last year.

We saw significant revenue growth in key areas of our operations. Among the most pleasing was our Major Accounts Group, which enjoyed another great year of growth, with new substantial brand name accounts representing 25 per cent of fees and also achieving 100 per cent of budgeted renewal income. In addition, Project Risks Group achieved a 23 per cent overall increase in its income on UK business year on year, with excellent progress in some of its key areas of specialty.

The National division, also saw revenue growth of 19 per cent to £18.6 million, while Heath Lambert Consulting, our employee benefits subsidiary, saw its revenue increase to £15.0 million, a 13 per cent increase year on year. The Personal Lines team generated a 5 per cent increase in its revenue, but of special note was the progress made with its e-commerce distribution operation, which witnessed a 33 per cent increase in revenue to £1.5 million. In addition, our specialist lines or Facilities division delivered a 7 per cent revenue increase to £11.4 million.

Such financial progress is testament to the market knowledge we possess and our ability to translate that understanding and appreciation of our clients' requirements into the specialist and appropriate solutions needed. And it is all the more pleasing to be able to report this financial performance in a declining rating environment.

We have met shareholder expectations

Facilities income up to

£11.4m

Personal Lines
income increases to

£18.0m

£18.6m
income for our
National division

Staff

We are a client focused organisation, and our highly skilled, capable and experienced teams of people are all dedicated to ensuring that we deliver service excellence to clients and partners within the UK and around the world, time and time again.

I am proud to be the Chief Executive of Heath Lambert and would like to thank all my colleagues for their professionalism, hard work, support and dedication.

2007 and beyond

2006 has been a year of healthy and encouraging results for Heath Lambert. Financially, we have exceeded our budgeted profit targets and met our shareholder expectations. Operationally, we have extended the depth and scope of the service we can provide with the addition of new products and solutions, and we have invested further in our staff, our partner communities, our infrastructure and our support. It was a successful year, but we can always do better.

Our aim for 2007 is to continue to build our business by:

- Ensuring that we raise our profile as a market leader.
- Delivering new, innovative and best of breed solutions for all our clients.
- Expanding and extending our operations.
- Attracting new people and continuing to develop a strong and expert team of people.
- Maintaining professional standards across all aspects of our operations.

Heath Lambert continues to develop strongly and profitably. We have every reason to be optimistic about the year to come.

A Colosso

Adrian Colosso Chief Executive
22 May 2007

Directors' Report

The directors submit their report together with the audited financial statements of the Company for the year ended 31 December 2006.

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.

Results and Dividend

The Company made a profit after net exceptional items and taxation of £10.1m (2005: £1.1m).

The Company has net assets of £43.1m at 31 December 2006 (2005: £33.0m).

A final dividend of £nil has been paid (2005: £nil). A retained profit of £10.1m (2005: £1.1m) has been transferred to reserves.

Future Outlook

The insurance broking market is expected to remain competitive in 2007, with downward pressure on premiums. However, the Company remains confident that it will maintain its current level of performance in the future.

Key Performance Indicators

The directors of HLG Holdings Limited, the Company's ultimate parent company, manage the Group's operations on a divisional basis. The development, performance and position of HLG Holdings Limited, which includes the Company, is discussed in the Directors' Report of the Group's annual report which does not form part of this report.

Principal Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company are considered to relate to competition from both national and international insurance brokers and employee retention.

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 monitors the exposure of the Company to these risks and where necessary, takes action to mitigate identified risks.

Foreign Exchange Risk

A significant amount of the Company's income is denominated in US dollars. In the year the Company has used 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 has in the year used forward contracts 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 ultimate parent company 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.

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.

Directors' Report (continued)

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
M A Hardinge (Appointed 27 April 2006)
R N Thomas (Appointed 13 January 2006)
D Thornton
A J Whiteley (Appointed 23 November 2006)

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 £12,637 (2005: £4,949). 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.

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 Group 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 and Disclosure of Information to Auditors

Each of the persons who is a director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2006, of which the auditors are unaware; and
- the director has taken all steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Report (continued)

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
133 Houndsditch
London, EC3A 7AH

22 May 2007

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 2006, 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 report to you whether, in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you, if in our opinion the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chief Executive's Review 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 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

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

22 May 2007

Profit and Loss Account

For the year ended 31 December 2006

	Notes	Before exceptional items £m	Exceptional items £m	**Total 2006 £m**	Total 2005 £m
Turnover	2	106.9	–	**106.9**	110.5
Administrative Expenses					
Management charge from former Group undertaking		–	–	**–**	(37.3)
Other administrative expenses	4,5	(113.7)	(1.6)	**(115.3)**	(85.8)
Goodwill amortisation	7	(0.9)	–	**(0.9)**	(0.2)
		(114.6)	(1.6)	**(116.2)**	(123.3)
Other Operating Income					
Management charges to Group undertakings		16.2	–	**16.2**	11.0
Operating Profit/(Loss)		8.5	(1.6)	**6.9**	(1.8)
Exceptional item: Profit on disposal of operations	4	–	–	**–**	0.2
Interest receivable	3	5.6	–	**5.6**	4.5
Interest payable and similar charges		(0.6)	–	**(0.6)**	(0.3)
Profit/(Loss) on Ordinary Activities before Taxation	5	13.5	(1.6)	**11.9**	2.6
Taxation	6	(2.3)	0.5	**(1.8)**	(1.5)
Profit/(Loss) on Ordinary Activities after Taxation and Retained Profit/(Loss) for the Year	18	11.2	(1.1)	**10.1**	1.1

'Operating loss in 2005 includes exceptional administrative expenses of £8.4m.

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

Balance Sheet

As at 31 December 2006

	Notes	2006 £m	2005 £m
Fixed Assets			
Intangible assets	7	**6.1**	6.3
Tangible assets	8	**7.6**	7.9
Investments in subsidiary undertakings	9	**20.0**	20.0
		33.7	34.2
Current Assets			
Debtors: - Amounts falling due within one year	11	**363.5**	422.1
- Amounts falling due after more than one year	11	**4.9**	8.9
Cash at bank and in hand	12	**111.6**	120.4
		480.0	551.4
Creditors: - Amounts falling due within one year	13	**(450.3)**	(531.6)
Net Current Assets		**29.7**	19.8
Total Assets Less Current Liabilities		**63.4**	54.0
Creditors: - Amounts falling due after more than one year	14	**(4.2)**	(5.3)
Provisions for liabilities and charges	16	**(16.1)**	(15.7)
Net Assets		**43.1**	33.0
Capital and Reserves			
Called up share capital	17	**75.0**	75.0
Profit and Loss Account	18	**(31.9)**	(42.0)
Equity Shareholders' Funds	19	**43.1**	33.0

Approved by the Board of Directors on 22 May 2007 and signed on its behalf by:

R N Thomas
Director

A Colosso
Director

The notes on pages 16 to 24 form part of these financial statements.

Notes to the Financial Statements

1. 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 2006, as the Company is a wholly owned subsidiary undertaking of another body corporate incorporated in Great Britain whose 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.

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 net 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.

Goodwill was eliminated directly 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.

(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 has in the year entered 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

(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.

Notes to the Financial Statements

(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) Operating Leases

The rentals payable under operating leases are charged on a straight-line basis to the income statement over the period of the leases.

Where a leasehold property becomes surplus to the Company's foreseeable business requirements, provision is made for the expected future net cost of the property taking account of the duration of the lease and any recovery of cost achievable from subletting.

(j) Investments in Subsidiary Undertakings

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

(k) 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 principal. 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.

(l) Interest Receivable

Interest receivable is recognised in the Profit and Loss Account on an accruals basis.

(m) Pension Costs

Contributions in respect of defined contribution pension schemes are charged to the Profit and Loss Account as incurred.

(n) Cash Flow Statement

As at 31 December 2006, 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).

2. 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:

	2006 **£m**	2005 £m
UK	**86.5**	85.3
Continental Europe	**8.1**	9.6
Asia & Australasia	**4.0**	3.8
The Americas	**5.6**	10.2
Africa	**2.7**	1.6
	106.9	110.5

Notes to the Financial Statements

3. Interest Receivable

	2006 £m	2005 £m
Interest receivable and other similar income	**5.6**	4.5

4. Exceptional Items

a) Profit on Disposal of Operations

	2006 £m	2005 £m
Sale of other brokerage portfolios	**–**	0.2
Total Profit on Disposal of Operations	**–**	0.2

b) Other Exceptional Costs

	2006 £m	2005 £m
Payments made under bank guarantees	**–**	1.8
Restructuring costs	**–**	4.4
Dilapidation costs	**(0.9)**	(3.7)
Loss on providing against amounts due from Group undertaking	**–**	5.9
Friary Court settlement	**4.6**	–
Release of private medical provision	**(2.1)**	–
Total Other Exceptional Costs	**1.6**	8.4

Dilapidation 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.

Friary Court Settlement

The Company vacated its Friary Court premises in December 2006. See note 16(a) for additional information.

Release of Private Medical Provision

The directors have undertaken a review of the provisions for private medical insurance. The directors are satisfied that the future outflow of economic benefits will be substantially less than the amount provided in the books as 31 December 2005.

5. Profit/(Loss) on Ordinary Activities before Taxation

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

	2006 £m	2005 £m
Wages and salaries	**59.3**	57.9
Social Security costs	**6.6**	6.5
Other pension costs	**3.8**	5.8

During the year the Company recharged expenses totalling £16.2m (2005: £11.0m) to fellow Group undertakings.

Auditors' remuneration for audit services in relation to the audit of the Company amounted to £0.3m (2005: £0.3m). Fees payable to the auditors for other (non-audit) services are in respect of services to the Group as a whole, and are disclosed in the consolidated accounts of the Company's ultimate parent company.

During the year, an average of 1,641 staff (2005: 1,674) were employed by the Company.

Notes to the Financial Statements

6. Taxation on Profit on Ordinary Activities

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

Analysis of Charge in Year	**2006** **£m**	2005 £m
Current Tax		
UK corporation tax on profits of the year	**–**	–
Adjustments in respect of prior years	**–**	–
	–	–
Deferred Tax		
UK deferred tax charge for the year	**3.5**	1.9
Adjustments in respect of prior years	**(1.7)**	(0.4)
	1.8	1.5
Tax on profit on ordinary activities	**1.8**	1.5

Reconciliation of Corporation Tax Charge	**2006** **£m**	2005 £m
Profit on ordinary activities before taxation	**11.9**	2.6
Charge at standard rate of corporation tax in UK of 30%	**3.6**	0.8
The UK corporation tax charge for the period has been affected by:		
– Expenses not deductible for tax purposes	**0.4**	2.5
– Capital allowances for period in excess of depreciation	**(2.0)**	(1.6)
– Utilisation of tax losses	**(1.5)**	(1.9)
– Capital gains	**–**	0.2
– Imputed taxable income	**(0.4)**	1.0
– Group relief received for nil payment	**(0.1)**	(1.0)
Current tax charge for year (as above)	**–**	–

Deferred Taxation Assets

Deferred tax assets have been recorded as follows:

	2006 **£m**	2005 £m
Accelerated capital allowances	**6.5**	8.9
Short term and other timing differences	**0.6**	–
	7.1	8.9

Movements in deferred taxation:

At 1 January 2006	**8.9**
Debit to Profit and Loss Account	**(1.8)**
At 31 December 2006	**7.1**

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

Notes to the Financial Statements

7. Intangible Assets

	Goodwill arising on acquisitions £m
Cost	
At 1 January 2006	6.8
Additions	0.7
At 31 December 2006	**7.5**
Amortisation	
At 1 January 2006	0.5
Charge for the year	0.7
Impairment	0.2
At 31 December 2006	**1.4**
Net Book Value	
At 31 December 2006	**6.1**
At 31 December 2005	6.3

8. Tangible Assets

Group	Systems development costs £m	Motor vehicles £m	Furniture and equipment £m	Total £m
Cost and Valuation				
At 1 January 2006	10.3	1.8	22.8	34.9
Additions	2.0	–	1.7	3.7
Disposals	–	(1.3)	(6.3)	(7.6)
At 31 December 2006	**12.3**	**0.5**	**18.2**	**31.0**
Depreciation				
At 1 January 2006	6.4	1.2	19.4	27.0
Provided in the period	1.8	0.1	1.7	3.6
Disposals	–	(0.9)	(6.3)	(7.2)
At 31 December 2006	**8.2**	**0.4**	**14.8**	**23.4**
Net Book Value at 31 December 2006	**4.1**	**0.1**	**3.4**	**7.6**
Net book value at 31 December 2005	3.9	0.6	3.4	7.9

The net book values of furniture and equipment and of motor vehicles included in fixed assets held under finance leases were £nil and £0.1m (2005: £nil and £0.5m) respectively. Depreciation of motor vehicles included in fixed assets held under finance leases for the year ending 31 December 2006, was £0.1m (2005: £0.3m).

9. Investments in Subsidiary Undertakings

	Company £m
Cost at 1 January 2006 and 31 December 2006	20.0

Details of the Company's principal 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.

Notes to the Financial Statements

10. Net Fiduciary Assets

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

	2006 £m	2005 £m
Insurance broking debtors (note 11)	**347.6**	406.2
Fiduciary cash and deposits (note 12)	**104.4**	111.0
Insurance broking creditors (note 13)	**(424.2)**	(502.5)
Net fiduciary assets	**27.8**	14.7

Net fiduciary assets analysed as:

	2006 £m	2005 £m
Unrealised brokerage	**17.3**	14.2
Cash not withdrawn	**10.5**	0.5
	27.8	14.7

11. Debtors

Amounts Falling Due Within One Year:

	2006 £m	2005 £m
Insurance broking debtors	**347.6**	406.2
Amounts owed by Group undertakings	**9.8**	2.7
Prepayments	**2.9**	8.2
Other debtors	**1.0**	5.0
Deferred taxation (see note 6)	**2.2**	–
Total debtors	**363.5**	422.1
Amounts Falling Due After More Than One Year:		
Deferred taxation (see note 6)	**4.9**	8.9
Total debtors	**368.4**	431.0

Insurance broking debtors include £1.4m (2005: £0.6m) owed by Group undertakings.

12. Cash at Bank and in Hand

	2006 £m	2005 £m
Cash at bank and in hand	**111.6**	120.4

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 2006, this amounted to £104.4m (2005: £111.0m).

13. Creditors – Amounts Falling Due Within One Year

	2006 £m	2005 £m
Insurance broking creditors	**424.2**	502.5
Amounts owing to Group undertakings	**6.4**	4.6
Other creditors	**6.0**	6.6
Other taxation and Social Security	**2.2**	1.8
Obligations under finance leases	**0.1**	0.4
Accruals and deferred income	**11.4**	15.7
Total creditors	**450.3**	531.6

Insurance broking creditors include £6.1m (2005: £4.0m) owing to Group undertakings.

Other creditors include £0.5m (2005: £0.4m) of outstanding pension contributions.

Notes to the Financial Statements

14. Creditors – Amounts Falling Due After More Than One Year

	2006 £m	2005 £m
Other creditors	**0.1**	1.2
Accruals and deferred income	**4.1**	4.1
Total creditors	**4.2**	5.3

15. Commitments

	Land and Buildings		Other	
Operating Leases which Expire	2006 £m	2005 £m	2006 £m	2005 £m
Within one year	**0.2**	0.1	**–**	0.1
In the second to fifth years inclusive	**6.3**	6.2	**–**	–
In over five years	**0.7**	0.9	**–**	–
	7.2	7.2	**–**	0.1

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

Obligations Under Finance Leases Due	2006 £m	2005 £m
Within one year	**0.1**	0.4
Greater than one year	**–**	–
	0.1	0.4

There were no capital commitments entered into as at 31 December 2006.

16. Provisions for Liabilities and Charges

	Provision for property costs £m	Provision for litigation £m	Other £m	Total £m
At 1 January 2006	5.6	8.0	2.1	15.7
Utilised during the year	–	(6.8)	–	(6.8)
Provided/(Released) in the year	(0.2)	5.8	–	5.6
Exceptional release in the year	(0.9)	–	(2.1)	(3.0)
Friary Court settlement	4.6	–	–	4.6
Balance at 31 December 2006	**9.1**	**7.0**	**–**	**16.1**

a) Property Costs Provision

This provision is the estimated liability in respect of wear and tear on the Company's leasehold properties as at 31 December 2006, together with provisions in respect of rentals on empty property. 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 September 2008.

The Company vacated its Friary Court premises in December 2006 and has subsequently reached a settlement on its lease, which expires in December 2009. The Company will pay further rents of £4.0m and a dilapidation charge of £2.5m (2005 provision includes an amount set aside for this charge of £1.9m), which will be payable over a period to September 2008.

b) 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.

c) Other Provisions

Other provisions comprised primarily the costs of providing for medical insurance for former employees. The directors have undertaken a review of the provisions for private medical insurance. The directors are satisfied that the future outflow of economic benefits will be substantially less than the amount provided in the books at 31 December 2005, accordingly the provision has been released.

Notes to the Financial Statements

17. Called-up Share Capital

	2006 £m	2005 £m
75,000,000 authorised, allocated and fully paid ordinary shares of £1 each	**75.0**	75.0

18. Profit and Loss Account

	Profit and Loss Account £m
At 1 January 2006	(42.0)
Retained profit for the year	10.1
At 31 December 2006	**(31.9)**

The cumulative amount of goodwill eliminated directly against reserves at 31 December 2006. was £4.8m (2005: £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.

19. Reconciliation of Movements in Shareholders' Funds

	2006 £m	2005 £m
Profit for the financial year	**10.1**	1.1
Net addition to shareholders' funds	**10.1**	1.1
Opening shareholders' funds	**33.0**	31.9
Closing Shareholders' Funds	**43.1**	33.0

20. Directors and Employees

The aggregate of directors' emoluments excluding pension contributions borne by this Company was £699,696 (2005: £388,828). The aggregate Company pension contributions to defined contribution schemes in respect of directors was £55,975 (2005: 15,676).

The emoluments of the highest paid director whose emoluments were borne by this company were £352,327 (2005: £234,809). The contribution to a defined contribution pension scheme in respect of the highest paid director was £29,100 (2005: £8,116).

The emoluments of M A Bruce, A Colosso and R N Thomas were borne by the ultimate parent undertaking, HLG Holdings Limited, which makes no recharge to the Company. M A Bruce, A Colosso and R N Thomas are directors of the ultimate parent undertaking and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of M A Bruce, A Colosso and R N Thomas. These emoluments are disclosed within the accounts of the ultimate parent undertaking HLG Holdings Limited.

The emoluments of A J Whiteley are borne by the subsidiary undertaking, Heath Lambert Consulting Limited, which makes no recharge to the Company. Accordingly, the above details include no emoluments in respect of A J Whiteley. These emoluments are disclosed within the accounts of Heath Lambert Consulting Limited.

As at 31 December 2006, retirement benefits were accruing to six directors under defined contribution schemes (2005: four). 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.

21. 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 2006, there was £43.0m drawn down under these facilities (2005: £48.0m). The potential additional contingent liability in respect of the maximum drawdown under these facilities was £nil (2005: £5.0m). At 31 December 2006, 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 22 May 2007, there was £43.0m drawn down under these facilities. The potential additional contingent liability in respect of the maximum drawdown under these facilities on 22 May 2007 was £nil.

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

Notes to the Financial Statements

21. Commitments and Contingent Liabilities (continued)

b) Capital Commitments

There were no capital commitments in respect of future capital expenditure on fixed assets at 31 December 2006 (2005: £nil).

22. Related Party Disclosures

As a wholly owned subsidiary of HLG Holdings Limited, 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.

23. Ultimate Parent Company

At 31 December 2006, the Company's ultimate parent undertaking was HLG Holdings Limited, a company registered in England and Wales. The Company's immediate parent undertaking was Friary Intermediate 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 133 Houndsditch, London, EC3A 7AH.

Key Areas of Operation

Aerospace
We place all of the traditional aviation insurances and reinsurances. Our products liability account includes some of the world's largest manufacturers and we are among the leaders in the airport liability market.

Employee Benefits
Heath Lambert Consulting is a subsidiary company and is one of the UK's leading employee benefits consultants. The team offers integrated benefits management, corporate protection programmes, pension advice and administration, and occupational healthcare.

Facilities
The team specialises in the creation and running of a diverse portfolio of underwriting facilities. Areas covered include bloodstock, livestock, jewellery and fine art, kidnap and ransom, personal accident/travel and specie. We also have a private client group handling the personal insurance for some of the world's most famous individuals.

Financial and Professional Risks
We are one of the UK's leading brokers catering to the needs of financial institutions, directors and officers and professionals across a range of sectors. We also offer specialist professional indemnity insurance services.

FSJ
This is our UK wholesale team, which places risks for a large number of brokers within the UK. Specialist areas include motor fleet, high hazard commercial accounts, and pharmaceutical and medical malpractice business.

Global Business Solutions (GBS)
GBS is our main international wholesale property and casualty business unit and alternative risk specialists. It also houses our international professional indemnity team.

Heath Lambert National
The Group's UK commercial branch network offers a compelling mix of local expertise and wider market understanding. It also includes a real estate and public sector operation.

Claims
This team is known for its exceptional ability to handle complex claims effectively. The team collects funds for our clients quickly and efficiently.

Major Accounts Group (MAG)
MAG is a collection of specialist teams catering for the needs of our larger corporate clients and multinationals headquartered in the UK and Europe, as well as companies with more complex risk profiles. It incorporates specialist captive management, credit and surety, mergers and acquisitions, claims management and risk management teams.

Marine
Our marine operation incorporates specialist hull, protection and indemnity, marine cargo, and ports and terminals teams.

Personal Lines
This division provides many organisations with personal lines insurance services for them to make available to their own clients on an 'own brand' basis. Clients include financial institutions, insurance brokers, estate agents and affinity partners.

Project Risks Group (PRG)
PRG comprises specialist construction, project risk/PFI, transportation and political risks teams. It advises contractors and lenders on many of the world's largest dams, tunnels, bridges, harbour projects and transport infrastructure projects.

Reinsurance
We have a highly skilled and specialist team of people who work in the non-marine reinsurance sector for insurers throughout the world.

Risk Management
The team provides effective risk management strategies and solutions to practical management problems.

Heath Lambert Group

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