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Heath Lambert Limited
Group Accounts

Annual Report and Financial Statements 2007

Heath Lambert Group

Surprisingly different

418108 454

We challenge people's perceptions

Heath Lambert Limited Group is the UK's leading independent insurance broker and employee benefits consultancy.

From its head office based in the City of London and a network of regional offices across the UK, the Group's expertise in, and approach to insurance and risk management has helped it to achieve dominant positions in a number of key sectors, including construction, professional indemnity, directors and officers, credit, affinity organisations, private equity, personal lines, employee benefits, fine art, property investment/management and transportation.

Contents

We aim to stand out from the crowd

Fig 1 Adrian Colosso, Group Chief Executive

Group Chief Executive's Review

During 2007 we completed a comprehensive strategic review of all operations, which has reaffirmed our long stated objective to simplify how and where we do business As a result we have taken the final steps in our objective to become a UK focused retail insurance broker Having a UK retail focus to our operation means that in addition to working with UK companies in the UK we also continue to handle the insurances for UK owned businesses with multinational reach The Group also offers some speciality wholesale services

We have developed our already effective distribution channels, expanded our products portfolio and harnessed the latest technological developments All of these measures have enabled us to more closely align our business and the solutions we offer with the changing needs of our clients

A year of consistent progress and profitability

At a time when there is ongoing consolidation in the industry and significant turmoil in the financial markets, we are delighted to have made such steady and consistent progress during the year and to have improved the overall corporate performance of the Group

Heath Lambert Limited Group Summary Profit and Loss Account

	Total 2007 £m	Total 2006 £m
Turnover	**114 2**	125 5
Expenses	**(102 4)**	(112 6)
Interest received	**5 7**	5 8
Trading profit*	**17 5**	**18 7**
Exceptional items**	**5 5**	(3 7)
Overseas dividends received	**1 4**	0 9
Interest payable	**(0 5)**	(0 5)
Taxation	**(3 8)**	(2 2)
Profit for year	**20 1**	**13 2**

* 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 22 and note 25 on page 32 for details

As a result of the ongoing rationalisation of our business in 2007 and the continued softening of rates in a business where a significant proportion of our income is derived from commission, turnover is down on last year

That said Heath Lambert generated UK operating revenue of £114 2 million, which is particularly encouraging given the challenges in the market and the wider economic slowdown

We saw notable year on year income growth in core areas of our operations In fact Heath Lambert's UK Retail, Personal Lines and Employee Benefits Divisions contributed approximately 85 per cent of the Group's income This progress was furthered by the ongoing success of our Credit and Surety Practice, which saw its net profits grow by 24 per cent year on year

In terms of divisional performance within Heath Lambert's National Division, the commercial branch network saw a five per cent growth in its mid-market operations as a whole, with double digit growth from its operations in Leeds Sheffield and Newcastle Retail Personal Lines income grew by 13 per cent which was driven by new schemes and e-commerce growth and the Heath Lambert Employee Benefits Division generated a six per cent growth income In addition, the Group's specialist retail units also showed income growth with the Transportation Division seeing an eight per cent increase, Credit and Surety seven per cent and UK Construction five per cent This progress was offset by a reduction in the international wholesale portfolio of 24 per cent, which was driven by soft market conditions, the fluctuations in the US dollar exchange rates and insurers increased global distribution

The year saw us build on our client base through the retention of key accounts and new business development, which were significantly enhanced by the group-wide service excellence programme Among the highlights were the 92 per cent retention rates secured by our Major Accounts Group on its UK and multinational clients including steel and heavy industry and leading UK food and fashion retailers In addition, the Group's Professional Risks Practice achieved 95 per cent retention rates with its clients in the consultancy, business services and architectural sectors

For a different view of the insurance world

Fig 2 We create a different view stare at the black dot then move the page towards and away from you, the circles appear to spin

Taking a deeper look into your business

Fig 3 We look into your business can you see the gold square amongst the circles?

Looking to the future and focusing on what we do best

Going forward our aim is to continue to invest in our people, our services, our solutions and operations to further strengthen our market leading position in the UK In fact, 2008 will see us focus on strengthening our position in the UK and moving away from being London centric We will be looking to expand our regional presence through the opening of new offices, expanding our existing offices and through the ongoing recruitment of specialists to build on our strong set of skills and knowledge We are determined to build on our success and are excited about what the future holds for the Heath Lambert Limited Group as a whole

As the final part of our review, we decided to exit a number of our non speciality wholesale and international lines of business and successfully concluded negotiations with Cooper Gay regarding the sale of our Aviation, FSJ (UK wholesale) and Reinsurance Divisions In addition the Renewal Rights to our Global Business Solutions Division (international general wholesale) was sold to Arthur J Gallagher, thereby concluding our strategy to exit our international non speciality wholesale operations

The sale of these areas enables us to be entirely focused on our core disciplines namely UK based Retail Commercial Affinities, Personal Lines and Employee Benefits Consulting, with a number of speciality wholesale teams attached to these businesses As part of this effort we have established a new specialist team, Heath Lambert Commercial Affinity and Small Business, which will focus the Group's activity in these specialist areas It builds on our already successful affinity operation and small business unit, and represents the next stage in our strategy to be a major multi-channelled UK retail insurance broker In addition, we have recently installed a new computer system, which will enhance our client offering, provide efficiencies and a solid, automated audit trail

These core areas represent where the Group has the skills and resource to build the business further, while overall profitability will improve yet further as the profit impact of the disposals will be neutral, due in part to the Group's London property lease breaks

While being UK focused, we have many clients and partners around the world Through partnerships, we work with other brokers to ensure that our global clients have access to a service which takes account of their individual requirements, offers consistent standards of professionalism and support irrespective of country and an authoritative insight into local trading conditions and statutory requirements within each territory

An independent view

A key aspect of the review was to reaffirm our belief in maintaining our much vaunted independence Unlike many of our competition, we feel that independence is a benefit and strength It gives us flexibility and agility which enable us to be both proactive and reactive with regards to changes in the market and in customer needs In this consolidating market we feel that such stability and confidence supported by our strong financial and operational performance, is reassuring to clients and partners Indeed, client feedback suggests that the close working relationship we have with them, combined with the expertise of our team are among the key reasons for our appointment and retention as broker and adviser to their businesses

Putting clients first

Today we employ approximately 1500 people in 21 offices across the UK who are tasked with upholding our client centric focus Our size and structure also mean that we can offer a highly personalised service to our clients and partners, forging strong and enduring working relationships Indeed many of our clients comment that we remain their broker of choice as a direct result of our ability and capabilities with the delivery of comprehensive insurance programmes

This 'client first strategy, combined with our market knowledge, flair for business, product expertise and tenacity to address the specific challenges our clients face, make us ideally placed to take advantage of the business opportunities open to us Today Heath Lambert boasts clients from a broad and diverse range of industries and sectors Among our enviable client list are many industry giants and household names from the property development and management, financial services, management consultancy, pharmaceutical, food and fashion retailing, transportation, private client, motor manufacturing, defence, shipping, media and hospitality sectors, as well as government departments and local authorities

Regulatory demands and standards of business

2007 saw more debate and discussion of the regulatory and legislative processes that govern the management and activity of our industry As a Group, we believe that the imposition of new laws and rules helps to ensure that best practice standards are employed by all providers, across all areas of their business

We are authorised and regulated by the Financial Services Authority and regularly assess and review our staff, their performance and our business practices and procedures Such evaluations help to ensure that we are fully compliant with all the regulations imposed on us In addition, our review processes help us to focus on developing and improving the required knowledge and expertise we have as a business thereby ensuring we deliver the advice and standards of service our clients and partners demand

Treating customers fairly

For 2008, we can expect to see further moves towards a more principles based regulatory regime and one where there is increased focus on the treatment of the customer The FSA will expect that all providers ensure that they treat their customers fairly Heath Lambert is committed to this initiative and fair treatment of the customer is one of our core values

Delivering an appropriate and creative insurance solution

Fig 4 We think differently about your insurance needs – are the lines within the inner square straight?

We aim to stand out from the crowd

Fig 5 We have no plans to be like the rest at first most people see dimples, but rotate the page and they become pimples

Staff

People are the lifeblood of our organisation and it is down to the professionalism, hard work support and dedication of our people that we have made such great progress over the past three years

During 2007 we continued to attract experts from across the industry and from our larger competitors and peer group The number and calibre of new joiners demonstrate the strength of our business model, flat management approach, solutions portfolio and vision Indeed many have stated that it is our client focused approach, open management style culture and independence, combined with the comprehensive range of business and services we offer that attracted them to join the Group We welcome all those who have joined, they have brought knowledge and expertise which complement our existing skills base and will help us to expand our market reach and skills yet further

I am very proud to be chief executive for the Group and on behalf of the Board I would like to thank all of our staff for their continued efforts and commitment

Overall

2007 was another year of progress for Heath Lambert Both financially and operationally, we have achieved our objectives, simplifying our business, re-focusing on core competencies, meeting shareholder expectations and extending our solutions and capabilities with the addition of new people, products and services That said we are looking to the future and to building on our success

Our aims for the year ahead are simple, to keep doing what we do best and satisfying the needs of our clients, partners, staff and stakeholders We will achieve these goals through the ongoing design and delivery of creative insurance solutions that provide quantifiable benefits to our clients, the continued expansion of our regional operations, the recruitment of new talent, by investing in the development of our expert teams and of course, maintaining professional and ethical standards across all aspects of our business and its operations

As the UK's leading independent insurance broker and employee benefits consultancy, we are a force to be reckoned with and are excited about what the future holds for us

Adrian Colosso Group Chief Executive
30 July 2008

Directors' Report

The directors submit their report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2007 The Company is producing consolidated accounts for 2007 Consolidated accounts were not produced for 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 The Company's primary trading subsidiary is Heath Lambert Consulting Limited an employee benefits consultancy Both Heath Lambert Limited and Heath Lambert Consulting Limited are authorised and regulated by the Financial Services Authority

Results and Dividend

The Group made a profit after net exceptional items and taxation of £20 1m (2006 £13 2m) The Group has net assets of £71 6m at 31 December 2007 (2006 £51 4m) A final dividend of £nil has been paid (2006 £nil) A retained profit of £20 1m (2006 £13 2m) has been transferred to reserves

Future Outlook

2008 will see us focus on strengthening our position in the UK We will be looking to expand our regional presence through the opening of new offices and through the ongoing recruitment of specialists

We decided to exit a number of our non-speciality wholesale and international lines of business in 2008 and have successfully concluded negotiations with Cooper Gay & Company Limited regarding the sale of our Aerospace, FSJ (UK wholesale) and Reinsurance Divisions In addition the Renewal Rights to our Global Business Solutions Division (international general wholesale) was sold to Arthur J Gallagher (UK) Limited, thereby concluding our strategy to exit our international non-speciality wholesale operations

Post Balance Sheet Events

As noted above the Group disposed of a number of non-speciality wholesale and international lines of business in June 2008 The consideration for these lines of business was £4 6m with further deferred consideration estimated to be £2m

The Company's ultimate parent company, HLG Holdings Limited, completed a refinancing with its lenders in July 2008 which renewed existing credit facilities and restructured debt repayments

Key Performance Indicators

The Board monitors the performance of the Group in reference to specific KPIs amongst other performance criteria

		Group	Insurance broking	Employee benefits
Revenue per employee				
Turnover (fees and commissions), divided by	2007	70,625	67,053	105,298
the total staff numbers (average for the year)	2006	75,330	72,937	99,338
EBITDA per employee				
EBITDA divided by the total staff numbers	2007	13,544	12 483	23,841
(average for the year)	2006	13,445	13,069	17 219
Salary to turnover ratio				
Direct salary costs divided by turnover (fees	2007	60 1%	63 1%	41 5%
and commissions)	2006	56 3%	58 1%	42 7%

Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks The key business risks and uncertainties affecting the Group are considered to be competition from both national and international insurance brokers and employee retention

Financial Risk Management

The Group'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 Group to these risks and where necessary, takes action to mitigate identified risks

Directors' Report (continued)

Interest Rate Risk

The directors have reviewed the exposure of the Group to any increase in interest rates and feel that at this time there is no benefit in using financial instruments to hedge against this risk

Foreign Exchange Risk

A significant amount of the Group s income is denominated in foreign currency The directors have reviewed the exposure of the Group to any movement in exchange rates and feel that at this time there is no benefit in using financial instruments to hedge against this risk

Credit Risk

The Group's exposure to credit risk is minimised as when acting as an agent, when carrying out the business of insurance broking, 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, HLG Holdings Limited, has entered into financing arrangements with its shareholders and lenders which are designed to leave the HLG Holdings Limited Group (HLGH Group) with a stable and manageable capital and debt structure The HLGH Group's financing arrangements are sufficient to allow funds to be made available for expansion should an appropriate opportunity arise Working capital cash flows are monitored by the Board of Directors

Personnel

Information on the Group'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 Group is committed to the principle of equal opportunity and ensuring that employees are not discriminated against in recruitment, career development or promotion

Consultation with employees and their representatives continues at all levels with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Group as a whole

Disabled Employees

It is the policy of the Group 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

G M Barr (Appointed 24 September 2007)
W D Bloomer
M A Bruce
A Colosso
M A Hardinge (Resigned 14 June 2007)
A W Pratten (Appointed 24 July 2007)
P D Smith (Appointed 5 November 2007)
R N Thomas
D Thornton (Resigned 30 May 2008)
A J Whiteley

Payments to Suppliers

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

Donations

During the year, donations to charities by the Group amounted to £21,488 (2006 £12 637)

Directors' Report (continued)

Responsibilities of the Directors

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Company and of the Group 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and of the Group and 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 of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the Group's website Legislation in the United Kingdom governing the preparation and dissemination of 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 2007, 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

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
30 July 2008

Independent Auditors' Report

To the members of Heath Lambert Limited

We have audited the Group and Parent Company financial statements (the "financial statements') of Heath Lambert Limited for the year ended 31 December 2007 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets the Group Statement of Total Recognised Gains and Losses 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 whether in our opinion the information given in the Directors Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises only the Directors' Report and the Group Chief Executive's Review 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 group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2007 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

30 July 2008

Consolidated Profit and Loss Account

For the year ended 31 December 2007

	Notes	Before exceptional items £m	Exceptional items £m	Total 2007 £m	Total 2006 £m
Turnover	2	114 2	–	**114 2**	125 5
Administrative expenses					
Other administrative expenses	4 5	(103 5)	(4 0)	**(107 5)**	(117 2)
Goodwill amortisation	5 7	1 1	–	**1 1**	0 9
Total Administrative Expenses		(102 4)	(4 0)	**(106 4)**	(116 3)
Group Operating Profit		11 8	(4 0)	**7 8**	9 2
Profit on disposal of fixed asset investments	25	–	9 5	**9 5**	–
Income from fixed and current asset investments		1 4	–	**1 4**	0 9
Interest receivable and similar income	3	5 7	–	**5 7**	5 8
Interest payable and similar charges	3	(0 5)	–	**(0 5)**	(0 5)
Profit on Ordinary Activities before Taxation		18 4	5 5	**23 9**	15 4
Taxation	6	(3 6)	(0 2)	**(3 8)**	(2 2)
Profit on Ordinary Activities after Taxation attributable to Shareholders for the Period	19	14 8	5 3	**20 1**	13 2

All of the above results for the period are attributable to continuing operations

Operating profit in 2006 includes exceptional administrative expenses of £3 7m

There are no material differences between the profit and loss on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

The notes on pages 19 to 33 form part of these financial statements

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2007

	2007 £m	2006 £m
Currency translation differences	**0 1**	0 2
Net gains recognised directly in equity	**0 1**	0 2
Profit for the financial year		
– Group	**20 1**	13 2
– Joint ventures	**–**	–
Total Recognised Profits Relating to the Period	**20 2**	13 4

The notes on pages 19 to 33 form part of these financial statements

Balance Sheets

As at 31 December 2007

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Fixed Assets					
Intangible assets – Goodwill	7	**6 3**	6 7	**5 7**	6 1
– Negative goodwill	7	**(1 8)**	(3 7)	**–**	–
Tangible assets	8	**7 4**	7 7	**7 4**	7 6
Investments in subsidiary undertakings	9	**–**	–	**20 0**	20 0
Interests in joint ventures	23	**–**	–	**–**	–
Other investments	10	**2 4**	10 5	**–**	–
		14 3	21 2	**33 1**	33 7
Current Assets					
Debtors – Amounts falling due within one year	12	**261 5**	374 3	**230 3**	361 3
– Amounts falling due after more than one year	12	**7 1**	10 6	**4 9**	7 1
Current asset investments	13	**–**	0 2	**–**	–
Cash at bank and in hand	14	**107 4**	117 7	**102 7**	111 6
		376 0	502 8	**337 9**	480 0
Creditors – Amounts falling due within one year	15	**(307 8)**	(450 2)	**(310 2)**	(450 3)
Net Current Assets		**68 2**	52 6	**27 7**	29 7
Total Assets Less Current Liabilities		**82 5**	73 8	**60 8**	63 4
Creditors – Amounts falling due after more than one year	15	**(4 8)**	(4 2)	**(4 8)**	(4 2)
Provisions for liabilities and charges	17	**(6 1)**	(18 2)	**(4 1)**	(16 1)
Net Assets		**71 6**	51 4	**51 9**	43 1
Capital and Reserves					
Share capital	18	**75 0**	75 0	**75 0**	75 0
Profit and loss account	19	**(3 4)**	(23 6)	**(23 1)**	(31 9)
Equity Shareholders' Funds	20	**71 6**	51 4	**51 9**	43 1

Approved by the Board of Directors on 30 July 2008 and signed on its behalf by

A Colosso
Director

Notes to the Financial Statements

1 Accounting Policies

(a) Basis of Preparation

These financial statements are the consolidated financial statements of the Company and its subsidiary undertakings (collectively, the "Group") and have been prepared under the historical cost convention and in accordance with applicable accounting standards

Comparative figures for the year ended 31 December 2006 included in these financial statements relate to the Group, unless otherwise stated, and have not been previously presented, as the Company historically availed itself of an exemption from preparing consolidated financial statements

Comparative figures for the year ended 31 December 2006 included in these financial statements which relate to the Company, were previously presented in the Company's separate financial statements for the year ended 31 December 2006 and have not been restated

The directors have reviewed the Group's accounting policies and consider them to be appropriate in accordance with FRS 18's objective of relevance, reliability, comparability and understandability

The directors are satisfied that adequate long term financing facilities are in place to enable the Group to continue as a going concern

(b) Group Financial Statements

Unless stated otherwise, business combinations are accounted for by the acquisition method of accounting The results of subsidiary undertakings acquired during the period are included in the consolidated profit and loss account from the effective date of acquisition In accordance with FRS 2 'Accounting For Subsidiary Undertakings', the Group has excluded from consolidation, subsidiaries which were acquired indirectly as a result of the acquisition of Heath Lambert Group Limited, but which are held for subsequent resale and as such have not formed part of the Group's continuing operations Subsidiary undertakings excluded from consolidation have been treated as current asset investments

(c) Turnover

Insurance Broking 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 Group 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

Turnover derived from employee benefits consultancy and related services comprises the aggregate of net commission, fees and other related income arising primarily from the provision of employee benefits consultancy to corporate clients

Commission income received from financial product providers is accounted for on an accruals basis when the policy is completed whilst fee income in respect of the administration of pension schemes is spread on a time apportioned basis over the period of the service being provided

Commission income received on an indemnity term basis where, should the client cancel the policy within a certain timeframe, the relevant proportion of the commission is repayable to the provider, is accounted for on an accruals basis when the policy is completed A provision is maintained to cover the anticipated repayments to product providers of commissions previously recognised as income This provision is regularly reviewed by the directors to ensure it remains adequate Any necessary increases or decreases in this provision are charged or credited to turnover

Income has been recognised from the writing back of some specific old run off credit items on the insurance broking ledgers which, in the Directors' opinion, following investigation during the period, do not represent insurance broking liabilities of the Group

(d) Investment Income

Dividends receivable from participating interests and subsidiary undertakings held for resale are recognised as income when formally declared

(e) 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

(f) Operating Leases

Lease payments in respect of operating leases are charged against profit as incurred over the period of the lease

Where a leasehold property becomes surplus to the Group'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

Notes to the Financial Statements

(g) 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 its estimated useful life not exceeding twenty years

Negative goodwill arising from business combinations, being the excess of the fair value of the net assets over the fair value of the consideration acquired, has been capitalised at cost and is being amortised on a straight-line basis over its estimated useful life of 3 5 years

(h) 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

(i) 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

(j) Investments in Subsidiary Undertakings

Investments in subsidiary undertakings in the financial statements of the parent company are stated at cost less provision for any impairment in value

(k) Fixed Asset Investments

Fixed asset investments comprise trade investments in other insurance broking entities which do not meet the criteria to be treated as associated or subsidiary undertakings

Fixed asset investments are stated at their fair value on acquisition, or cost if acquired since the acquisition of Heath Lambert Group Limited by the ultimate parent of the Company, HLG Holdings Limited, less any provision for impairment in value

(l) Current Asset Investments

Current asset investments comprise investments in subsidiary undertakings held for resale

Current asset investments are stated at their fair value on the acquisition of Heath Lambert Group Limited by the ultimate parent of the Company HLG Holdings Limited, less any provision for impairment in value

(m) 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 or for taxation which would become payable if the undistributed reserves of overseas companies were remitted to the UK Deferred tax balances are not discounted

(n) Pensions

The Group operates defined contribution pension schemes for the benefit of its employees Contributions are charged to the profit and loss account as incurred

(o) Foreign Currencies

Monetary 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 All realised exchange differences arising from trading are recognised in the result before taxation

Profits and losses of consolidated overseas subsidiary undertakings are translated into sterling at the average exchange rates for the period The assets and liabilities of such companies are translated at the exchange rates ruling at the balance sheet date Exchange differences on the translation of net assets are taken directly to reserves

Notes to the Financial Statements

(p) Insurance Broking Debtors and Creditors

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers and, as such, are generally 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 flow arising from these transactions

Debtors and creditors arising from a transaction 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 generally the credit risk is 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 of 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 of debtors and creditors is uncertain and in the event of an insolvency it is generally abandoned FRS 5 'Reporting the Substance of Transactions' requires that offset of assets and liabilities should be recognised in financial statements where, and only where, the offset would survive the insolvency of the other party Accordingly, only such offsets have been recognised in calculating insurance broking debtors and creditors

(q) Share-based Incentives

In accordance with FRS 20 the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the Group's estimate of options that will eventually vest Options granted have been measured at fair value using a Black-Scholes pricing model Further details are set out in note 5

(r) Cash Flow Statement

As at 31 December 2007, the Company was a wholly owned subsidiary of HLG Holdings Limited and is included in the consolidated financial statements of that Company which are 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

The Group's turnover, profit before tax and net assets in these financial statements are almost wholly attributable to subsidiaries incorporated in the United Kingdom

The table below analyses turnover by the address of the client from whom the business is derived This does not necessarily reflect the original source or location of the business

	Total 2007 £m	Total 2006 £m
UK	**95 3**	104 3
Asia & Australasia	**3 3**	4 1
The Americas	**5 9**	5 6
Continental Europe	**7 9**	8 8
Africa	**1 8**	2 7
Total Turnover	**114 2**	125 5

The Group's turnover analysed by business segment is as follows

	Total 2007 £m	Total 2006 £m
Insurance broking and related activities	**98 3**	110 5
Employee benefits consultancy and related activities	**15 9**	15 0
Total Turnover	**114 2**	125 5

Notes to the Financial Statements

2 Segmental Reporting (continued)

The Group's profit before tax and net assets by business segment are as follows

	Profit before tax 2007 £m	Profit before tax 2006 £m	Net Assets 2007 £m	Net Assets 2006 £m
Insurance broking and related activities	**19 9**	12 6	**66 6**	44 8
Employee benefits consultancy and related activities	**4 0**	2 8	**5 0**	6 6
Total	**23 9**	15 4	**71 6**	51 4

3 Interest

	2007 £m	2006 £m
Interest receivable and other similar income	**5 7**	5 8
Finance lease interest	**-**	0 1
Other interest payable and similar charges	**0 5**	0 4
	0 5	0 5

4 Exceptional Costs

	2007 £m	2006 £m
Strategic Review costs	**2 2**	–
Redundancy costs	**0 7**	-
Dilapidations	**(0 8)**	(0 9)
Friary Court settlement	**0 4**	4 6
Impairment of fixed asset investments	**1 5**	–
Total Other Exceptional Costs	**4 0**	3 7

Strategic Review Costs
The Company incurred legal and advisory costs associated with a strategic review of the business

Redundancy Costs
Redundancy costs relate to the costs of closing the subsidiary entity Heath Lambert Interbroker Correduria de Reaserugos SA

Dilapidations
During the year, the directors reassessed the Company's exposure to dilapidations 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 and subsequently reached settlements on its lease which expires in December 2009 The Company agreed to pay further rents of £4 5m and a dilapidation charge of £2 0m (a 2005 provision included an amount set aside for this charge of £1 9m), which was to be payable over a period to September 2008 The relevant provision was included in the 2006 accounts

The agreements were subsequently amended in 2007 whereby the settlements consisted of £1 2m rents, a reverse premium of £2 9m, additional legal costs of £0 3m and a dilapidation charge of £2 5m The total settlements cost of £6 9m was £0 4m above the provision included in the 2006 accounts

Impairment of Fixed Asset Investments
Impairment of fixed asset investments relates to the write down of the Group's shareholding in Pantaenius Versicherungsmakler GmbH (see note 10)

Notes to the Financial Statements

5 Profit on Ordinary Activities before Taxation

Profit on ordinary activities before taxation is stated after charging the following

	2007 £m	2006 £m
Staff costs		
Wages and salaries	**58 6**	60 2
Social security costs	**6 5**	6 6
Other pension costs	**3 5**	3 8
Depreciation		
– relating to owned assets	**4 1**	3 6
– relating to assets held under finance lease	**-**	0 1
Amortisation		
– goodwill arising on consolidation	–	0 1
– negative goodwill arising on consolidation	**(1 9)**	(1 9)
– purchased goodwill	**0 8**	0 9
Foreign exchange gains	**(0 8)**	(1 1)
Operating lease charges		
– land and buildings	**6 0**	7 9
– other	**0 2**	0 5

Auditors' remuneration for audit services in relation to the audit of the Group amounted to £0 3m (2006 £0 3m) Fees payable to the auditors for other (non-audit) services are in respect of services to the HLGH Group as a whole, and are disclosed in the consolidated accounts of the Company s ultimate parent company

During the year, an average of 1,617 staff (2006 1,666) were employed by the Group

During the year employees of the Group were issued with options over shares in the ultimate parent company HLG Holdings Limited under the HLGH Share Option Plan (HLGH Plan) In line with FRS 20 an expense has been recorded in the Profit and Loss account of the Group in the year

The options granted under the HLGH Plan can be exercised only upon, or immediately prior to an exit event, the options have a maximum term of 10 years Settlement of the options is to be in the form of equity

A total of 605,000 options were granted on 25 July 2007 (options granted relate to 87,500 C ordinary shares and 517,500 D ordinary shares) No options were exercised during the year, the exercise price of each option is £nil

The fair value of the options is expensed over a 3 year period, based on the Black-Scholes model assuming a risk free rate of 5 63%, expected volatility is 20% and an expected dividend yield of nil Expected volatility was determined using the median historic share price volatility of comparative insurance brokers' shares

The total expense in the Profit and Loss account in the year relating to share options was £20,940

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	2007 £m	2006 £m
Current Tax		
UK corporation tax charge on profits of the period	**0 3**	0 4
	0 3	0 4
Overseas adjustments in respect of prior periods	**–**	(0 1)
	0 3	0 3
Deferred Tax		
UK deferred tax charge for the year	**3 5**	4 3
Adjustments in respect of prior years	**–**	(2 4)
	3 5	1 9
Tax on profit on ordinary activities	**3 8**	2 2

Reconciliation of Corporation Tax Charge		
Profit on ordinary activities before taxation	**23 9**	15 4
Charge at standard rate of corporation tax in UK of 30%	**7 2**	4 6
The corporation tax charge for the period has been affected by		
– Higher/Lower tax rates overseas	**(3 7)**	(0 2)
– Non-taxable income	**(0 1)**	(0 1)
– Capital allowances in excess of depreciation	**(1 3)**	(1 9)
– Expenses not deductible for tax purposes	**0 7**	–
– Movement of tax losses	**(1 1)**	(1 2)
– Capital gains offset by losses or exempt	**(0 1)**	–
– Adjustments in respect to previous periods	**–**	(0 1)
– Intercompany balances written off and investment cost write down	**0 4**	–
– Double taxation relief	**–**	(0 2)
– Adjustment in respect of transfer pricing	**0 1**	0 1
– Group relief claimed for nil payment	**(1 9)**	(0 7)
– Other short term timing differences	**0 1**	–
Current tax charge for year (as above)	**0 3**	0 3

Deferred Taxation Assets

Deferred tax assets have been recorded as follows

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Accelerated capital allowances	**4 9**	6 5	**4 9**	6 5
Corporation tax losses	**2 2**	4 1	**–**	0 6
	7 1	10 6	**4 9**	7 1

Movements in Deferred Taxation Asset

	Group £m	Company £m
At beginning of year	**10 6**	7 1
Current year	**(3 0)**	(1 9)
Change in statutory tax rate	**(0 5)**	(0 3)
At end of year	**7 1**	4 9

The Group has recognised deferred tax assets of £2 2m (2006 £4 1m) in respect of unutilised tax losses (£nil of these losses relate to the Company) These unutilised tax losses are recognised as deferred tax assets as they are expected to be utilised in the foreseeable future

Notes to the Financial Statements

6 Taxation on Profit on Ordinary Activities (continued)

The Group has charged depreciation in excess of capital allowances relating to 2007 and prior years It is expected that claiming capital allowances in future periods will result in allowable deductions in excess of depreciation charges in those periods Based on profit forecasts, the directors expect that the Group will generate sufficient taxable income to be able to utilise the resulting deductions in the foreseeable future The Group has therefore recognised a deferred tax asset of £4 9m (2006 £6 5m) in respect of accelerated capital allowances (£4 9m of these relate to the Company)

All deferred tax assets as at 31 December 2007 have been calculated based on a 28% corporation tax rate in the UK

The Group also has unrecognised deferred tax assets of £0 5m in respect of unutilised tax losses £nil of these losses relate to the Company These unutilised tax losses are not recognised as deferred tax assets as they are not expected to be utilised in the foreseeable future However these tax losses will be realised should sufficient profits be generated against which the losses may be offset

7 Intangible Assets

Goodwill

Group	Consolidated Goodwill £m	Purchased Goodwill £m	Total £m
Cost at 1 January 2007	0 7	7 5	8 2
Additions	–	0 4	0 4
At 31 December 2007	**0 7**	**7 9**	**8 6**
Amortisation			
At 1 January 2007	0 1	1 4	1 5
Provided in the period	–	0 8	0 8
At 31 December 2007	**0 1**	**2 2**	**2 3**
Net Book Value at 31 December 2007	**0 6**	**5 7**	**6 3**
Net Book Value at 31 December 2006	0 6	6 1	6 7

Purchased goodwill relates entirely to the Company

Additions to goodwill comprise of an adjustment in the purchase price of a broker team purchased in 2006 that was contingent on performance Actual performance exceeded the estimate in 2007 hence the difference is included as an addition to goodwill

Negative Goodwill

Group	Consolidated Goodwill £m
Cost at 1 January 2007	(6 6)
Additions	–
At 31 December 2007	**(6 6)**
Amortisation	
At 1 January 2007	(2 9)
Released in the period	(1 9)
At 31 December 2007	**(4 8)**
Net Book Value at 31 December 2007	**(1 8)**
Net Book Value at 31 December 2006	(3 7)

Negative goodwill is being written back in the profit and loss account up to 31 December 2008

Notes to the Financial Statements

8 Tangible Assets

Group	Systems Development Costs £m	Motor Vehicles £m	Furniture & Equipment £m	Total £m
Cost or Valuation				
At 1 January 2007	12 4	0 5	18 6	31 5
Additions	1 6	–	2 3	3 9
Disposals	–	(0 5)	–	(0 5)
At 31 December 2007	**14 0**	**–**	**20 9**	**34 9**
Depreciation				
At 1 January 2007	8 3	0 4	15 1	23 8
Provided in the year	2 3	–	1 8	4 1
Disposals	–	(0 4)	–	(0 4)
At 31 December 2007	**10 6**	**–**	**16 9**	**27 5**
Net Book Value at 31 December 2007	**3 4**	**–**	**4 0**	**7 4**
Net Book Value at 31 December 2006	4 1	0 1	3 5	7 7

The net book value of motor vehicles included in fixed assets held under finance leases was £nil (2006 £nil) The depreciation charge in respect of these leased assets was £nil (2006 £0 1m)

The net book value of furniture and equipment included in fixed assets held under finance leases was £0 4m (2006 £nil) The depreciation charge in respect of these leased assets was £nil (2006 £nil)

Company	Systems Development Costs £m	Motor Vehicles £m	Furniture and Equipment £m	Total £m
Cost and Valuation				
At 1 January 2007	12 3	0 5	18 2	31 0
Additions	1 6	–	2 3	3 9
Disposals	–	(0 5)	–	(0 5)
At 31 December 2007	**13 9**	**–**	**20 5**	**34 4**
Depreciation				
At 1 January 2007	8 2	0 4	14 8	23 4
Provided in the year	2 3	–	1 7	4 0
Disposals	–	(0 4)	–	(0 4)
At 31 December 2007	**10 5**	**–**	**16 5**	**27.0**
Net Book Value at 31 December 2007	**3 4**	**–**	**4 0**	**7 4**
Net Book Value at 31 December 2006	4 1	0 1	3 4	7 6

The net book value of motor vehicles included in fixed assets held under finance leases was £nil (2006 £nil) The depreciation charge in respect of these leased assets was £nil (2006 £0 1m)

The net book value of furniture and equipment included in fixed assets held under finance leases was £0 4m (2006 £nil) The depreciation charge in respect of these leased assets was £nil (2006 £nil)

9 Investments in Subsidiary Undertakings

	Company £m
Cost at 31 December 2006 and 31 December 2007	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 Other Fixed Asset Investments

	Group £m	Company £m
Cost or Valuation		
At 1 January 2007	10 5	–
Disposals	(6 6)	–
At 31 December 2007	**3 9**	**–**
Impairment		
At 1 January 2007	–	–
Provided in the year	1 5	–
At 31 December 2007	**1 5**	**–**
Net Book Value at 31 December 2007	**2 4**	**–**
Net Book Value at 31 December 2006	10 5	–

The other investments above comprise investments in other entities not meeting the definition of either a subsidiary or associated undertaking Details of these investments are disclosed in note 25 In the opinion of the directors the value of these investments is at least equal to the amount shown above

La Sécurité Nouvelle SA was sold in the year (see note 25 for details)

A decision was made in 2008 to sell the Group's 40% shareholding in Pantaenius Versicherungsmakler GmbH for €600 000 The previous carrying value of the investment was £1 95m and, accordingly, an impairment of £1 5m has been recognised in 2007

11 Net Fiduciary Assets

	Group 2007 £m	Group 2006 £m	**Company 2007 £m**	Company 2006 £m
Insurance broking debtors (note 12)	**221 5**	348 0	**221 5**	347 6
Fiduciary cash and deposits (note 14)	**88 9**	108 3	**86 9**	104 4
Insurance broking creditors (note 15)	**(290 5)**	(429 1)	**(288 7)**	(425 7)
Net fiduciary assets	**19 9**	27 2	**19 7**	26 3

Net fiduciary assets analysed as

	Group 2007 £m	Group 2006 £m	**Company 2007 £m**	Company 2006 £m
Unrealised brokerage	**13 4**	16 7	**13 2**	15 8
Cash not withdrawn	**6 5**	10 5	**6 5**	10 5
Net fiduciary assets	**19 9**	27 2	**19 7**	26 3

The above fiduciary assets and liabilities are included on the balance sheet Fiduciary cash and deposits are held for the benefit of insurance broking creditors and not available for general corporate purposes

Notes to the Financial Statements

12 Debtors

Amounts Falling Due Within One Year

	Group 2007 £m	Group 2006 £m	**Company 2007 £m**	Company 2006 £m
Insurance broking debtors	**221 5**	348 0	**221 5**	347 6
Amounts due from Group undertakings	**-**	-	**-**	0 2
Amounts due from fellow subsidiary undertakings of ultimate parent company	**32 3**	14 9	**6 1**	9 6
Other debtors	**5 2**	8 2	**0 5**	1 0
Prepayments and accrued income	**2 5**	3 2	**2 2**	2 9
Total debtors	**261 5**	374 3	**230 3**	361 3
Amounts Falling Due After More Than One Year				
Deferred Taxation (see note 6)	**7 1**	10 6	**4 9**	7 1
Total debtors	**268 6**	384 9	**235 2**	368 4

Company insurance broking debtors include £0 9m (2006 £1 4m) owed by Group undertakings

13 Current Asset Investments

Unlisted Investments

	Group £m	Company £m
Cost		
At 31 December 2006	0 2	-
Disposals	(0 2)	-
At 31 December 2007	**-**	**-**
Impairment		
At 31 December 2006	-	-
Provided in the year	-	-
At 31 December 2007	**-**	**-**
Net Book Value at 31 December 2007	**-**	**-**
Net Book Value at 31 December 2006	0 2	-

14 Cash at Bank and in Hand

	Group 2007 £m	Group 2006 £m	**Company 2007 £m**	Company 2006 £m
Cash and Deposits	**107 4**	117 7	**102 7**	111 6

In accordance with FSA requirements, the Group's insurance broking subsidiaries hold monies in insurance broking bank accounts for the benefit of insurance broking creditors, which are not available for general corporate purposes At 31 December 2007, these amounted to £88 9m (2006 £108 3m)

Notes to the Financial Statements

15 Creditors

Amounts Falling Due Within One Year

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Insurance broking creditors	**290 5**	429 1	**288 7**	425 7
Amounts due to group undertakings	**–**	–	**5 9**	6 0
Other taxation and social security	**2 2**	2 4	**2 2**	2 4
Obligations under finance leases (see note 17)	**0 1**	0 1	**0 1**	0 1
Other creditors	**5 2**	8 3	**3 9**	6 2
Accruals and deferred income	**9 8**	10 3	**9 4**	9 9
	307 8	450 2	**310 2**	450 3
Amounts Falling Due After More Than One Year				
Obligations under finance leases (see note 16)	**0 3**	–	**0 3**	–
Other creditors	**0 4**	–	**0 4**	–
Accruals and deferred income	**4 1**	4 2	**4 1**	4 2
	4 8	4 2	**4 8**	4 2
Total Creditors	**312 6**	454 4	**315 0**	454 5

Other creditors falling due within one year include £0 4m (2006 £0 5m) of outstanding pension contributions

Company insurance broking creditors include £5 1m (2006 £6 1m) owing to Group undertakings

16 Commitments

Group and Company

Operating Leases which Expire	Land and Buildings 2007 £m	Land and Buildings 2006 £m
Within one year	**–**	0 2
In the second to fifth years inclusive	**4 4**	6 3
In over five years	**0 5**	0 7
	4 9	7 2

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

Obligations Under Finance Leases Due	2007 £m	2006 £m
Within one year	**0 1**	0 1
In the second to fifth years inclusive	**0 3**	–
	0 4	0 1

17 Provisions for Liabilities and Charges

Group	Pensions & Other Regulatory Provisions £m	Other Provisions £m	Provision for Property Costs £m	Provision for Litigation £m	Total £m
At 1 January 2007	1 7	0 3	9 1	7 1	18 2
Utilised during the year	(0 2)	(0 1)	(6 8)	(0 8)	(7 9)
Provided/(Released) in the year	(1 1)	0 8	(0 2)	(2 3)	(2 8)
Exceptional release in the year	–	–	(0 4)	–	(0 4)
Transfer to creditors	–	–	–	(1 0)	(1 0)
Balance at 31 December 2007	**0 4**	**1 0**	**1 7**	**3 0**	**6 1**

Company	Provision for Property Costs £m	Provision for Litigation £m	Total £m
At 1 January 2007	9 1	7 0	16 1
Utilised during the year	(6 8)	(0 7)	(7 5)
Released in the year	(0 2)	(2 9)	(3 1)
Exceptional release in the year	(0 4)	–	(0 4)
Transfer to creditors	–	(1 0)	(1 0)
Balance at 31 December 2007	**1 7**	**2 4**	**4 1**

Notes to the Financial Statements

17 Provisions for Liabilities and Charges (continued)

a) Pension and Other Regulatory Provisions

The Group has a liability in respect of complaints made regarding the misselling of both personal pensions and mortgage endowments As at 31 December 2007, this liability is estimated at £300 000 (2006 £1,589,000) All anticipated claims relating to the misselling of mortgage endowments are covered by the Group's insurance arrangements whereas claims relating to pension misselling are borne by the Group Included in other debtors is an amount of £206,000 (2006 £1,598 000) due from the Group's insurers in respect of the misselling of mortgage endowments It is not practical to specifically indicate the likely timing of claim settlements and recoveries

b) Other Provisions

There is a provision held for potential clawbacks in relation to commission received on indemnity terms Actual clawback experience in the year to 31 December 2007 and payments in respect of the current and prior periods was £120,000 (2006 £237,000) The provision held at 31 December 2007 was £200,000 (31 December 2006 £244,000) This has been calculated in accordance with FSA rules Generally clawback periods extend up to 24 months after the inception of the policy

There is a provision for £772,000 relating to redundancy costs of closing the subsidiary entity Heath Lambert Interbroker Correduria de Reaserugos SA

c) 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 2007, together with provisions in respect of rentals on empty property This provision will be utilised as the leases on the Companys leasehold properties expire

d) 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

18 Called-up Share Capital

	2007 £m	2006 £m
75,000 000 authorised, allocated and fully paid ordinary shares of £1 each	**75 0**	75 0

19 Reserves

Group	Profit and Loss Account £m	Share Option Reserve £m
At 1 January 2007	(23 6)	–
Profit attributable to shareholders	20 1	–
Foreign exchange differences recognised directly in reserves	0 1	–
At 31 December 2007	**(3 4)**	**-**

Company	Profit and Loss Account £m	Share Option Reserve £m
At 1 January 2007	(31 9)	–
Profit attributable to shareholders	8 8	–
At 31 December 2007	**(23 1)**	**-**

In accordance with the exemption provided in Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account The Company had a retained profit of £8 8m for the year (2006 £10 1m)

The cumulative amount of purchased goodwill eliminated directly against reserves at 31 December 2007, was £4 8m (2006 £4 8m) This purchased 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 purchased goodwill would be charged to the Profit and Loss Account in the year of disposal

A new reserve was created in the year on the issue of share options in HLG Holdings Limited to employees (see note 5) The total amount credited to the reserve for the year was £20,940

Notes to the Financial Statements

20 Reconciliation of Movements in Shareholders' Funds

	2007 £m	2006 £m
Profit for the Financial Period	**20 1**	13 2
Foreign exchange difference recognised directly in reserves	**0 1**	0 2
Net increase in shareholders' funds	**20 2**	13 4
Opening shareholders' funds	**51 4**	38 0
Closing Shareholders' Funds	**71 6**	51 4

21 Directors and Employees

The aggregate of directors' emoluments excluding pension contributions borne by this Company was £1,950,670 (2006 £699,696) The aggregate Company pension contributions to defined contribution schemes in respect of directors was £110,236 (2006 55 975) The aggregate amount paid to former directors for loss of office was £289,750 (2006 £nil)

The emoluments of the highest paid director whose emoluments were borne by this company were £537,392 (2006 £352,327) The contribution to a defined contribution pension scheme in respect of the highest paid director was £22,500 (2006 £29,100)

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 a recharge of 10% to the Company Accordingly, the above details include only the recharged emoluments in respect of A J Whiteley The remainder of the emoluments are disclosed within the accounts of Heath Lambert Consulting Limited

As at 31 December 2007, retirement benefits were accruing to nine directors under defined contribution schemes (2006 six)

22 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 2007, there was £33 0m drawn down under these facilities (2006 £43 0m) At 31 December 2007, 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 30 July 2008, there was £20 0m drawn down under these facilities The potential additional contingent liability in respect of the maximum drawdown under these facilities on 30 July 2008 was £5 0m

The loans under the above facilities are due for repayment in instalments up to 31 October 2010

b) Capital Commitments

There were no capital commitments in respect of future capital expenditure on fixed assets at 31 December 2007 (2006 £nil)

23 Principal Subsidiary Undertakings

United Kingdom	Country of Incorporation	Holding %	Activity
Heath Lambert Consulting Limited	United Kingdom	100%	Employee Benefits Consultancy
Heath Lambert Overseas Limited	United Kingdom	100%	Holding Company
Heath Lambert Insurance Management (Guernsey) Ltd	Channel Islands	100%	Captive Insurance Co Management
Friary Court Insurance PCC Ltd	Channel Islands	100%	Protected Cell Insurance Co
Heath Lambert Interbroker Correduria de Reaserugos SA	Spain	100%	Insurance Broker

The Group's principal joint venture at 31 December 2007 is Heath Lambert Insurance Management (Malta) Limited, a company incorporated in Malta The Group holds 51% of the ordinary share capital and voting rights The principal activity of Heath Lambert Insurance Management (Malta) Limited is captive management

Notes to the Financial Statements

24 Subsidiaries Excluded from Consolidation

HLGH Group acquired the entire share capital of Heath Lambert Group on 26 May 2005 In acquiring this investment, HLGH Group also obtained ownership of a number of direct and indirect subsidiaries of Heath Lambert Group Limited Certain of these subsidiaries were identified for subsequent resale and as such, both HLGH Group and the Group has in accordance with FRS 2 'Accounting For Subsidiary Undertakings' excluded these subsidiaries from consolidation The investments in these subsidiaries are included in these financial statements as current asset investments and are stated at their fair value upon acquisition less any provision for impairment

The majority of these subsidiaries have now been sold The two remaining subsidiaries still excluded from consolidation are RIP-4 Warszawska SP Zoo a company incorporated in Poland of which the Group has a 75% shareholding and Edward Lloyd Ltd, a company incorporated in the USA of which the Group has a 100% shareholding, the activity of both companies being insurance broking A decision has been made in 2008 to place RIP-4 Warszawska SP Zoo into liquidation Edward Lloyd Ltd is in run off and is due to be placed into liquidation in 2008

The aggregate of capital and reserves at 31 December 2007 and result for the year of both entities is not material to the Group accounts There were no transactions between the Group and either entity in the year At 31 December 2007 the Group held a debtor of £0 2m with Edward Lloyd Ltd, there were no other balances between the Group and either entity

25 Other Fixed Asset Investments

The Group also holds the following investments These investments have not been accounted using the equity accounting basis as in the directors opinion the Group is unable to exert a significant influence over these entities

	Country of Incorporation	Holding %	Activity
Pantaenius Versicherungsmakler GmbH	Germany	40%	Insurance Broker
Fenchurch Faris Ltd	Isle of Man	39%	Insurance Broker
CE Heath and Partners LLC	Oman	24%	Insurance Broker
Antah Insurance Brokers SDN BDH	Malaysia	30%	Insurance Broker

The investments in these entities are included in these financial statements as fixed asset investments

In 2007 the Group sold its 45% shareholding in La Sécurité Nouvelle SA for €24m As a condition of the HLGH Group being provided with new credit facilities in May 2005, the HLGH Group agreed to pay an amount to the relevant lenders equivalent to a 20% share of the net proceeds of selling the shareholding in La Sécurité Nouvelle SA, totalling £6 7m This amount is carried in the HLGH Group balance sheet at 31 December 2007 as payable to the relevant lenders, and was paid in 2008 The profit on disposal included in the consolidated profit and loss account is £9 5m and the tax attributable to this is a charge of £0 2m

Heath Lambert de Cuba SA was liquidated in 2007

The Group's shareholding in Pantaenius Versicherungsmakler GmbH was sold on 3 April 2008 for €600,000

The Group's shareholding in Fenchurch Faris Ltd was reduced to 10% following the sale of shares on 1 May 2008 for £2 25m, to be received in instalments

The Group's shareholding in CE Heath and Partners LLC was sold in June 2008 for £1,000

26 Related Party Disclosures

The Group has taken advantage of exemptions under Financial Reporting Standard 8 "Related Party Disclosures" and has not disclosed transactions with other members or investees of the HLGH Group, as the Company is wholly owned by HLG Holdings Limited which prepares publicly available consolidated financial statements in which the Company is included

27 Ultimate Parent Company

At 31 December 2007, 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

28 Post Balance Sheet Events

As noted in the Directors' Report the Group disposed of a number of non-speciality wholesale and international lines of business in June 2008 The consideration for these lines of business was £4 6m with further deferred consideration estimated to be £2m

HLG Holdings Limited completed a refinancing with its lenders in July 2008 which renewed existing credit facilities and restructured debt repayments As at 30 July 2008, there was £20 0m drawn down under these facilities The loans under these facilities are due for repayment in instalments up to 31 October 2010

Heath Lambert Group works with clients including...

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Key Areas of Operation

Retail - National
Retail Nation Division brings together Heath Lambert National and Project Risks Group under a single management structure

Heath Lambert National
The Group s UK commercial branch network offers a compelling mix of local expertise and wider market understanding It also includes Real Estate, Public Sector, Personal Accident Entertainment and Marine and Cargo operations, as well as a specialist Claims Management Unit

Project Risks Group
PRG comprises specialist construction, project risk/PFI, transportation terrorism, 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

Retail - Major Financial and Professional
Retail - Major Financial and Professional brings together the Major Accounts Group with the Financial and Professional Risks team

Major Accounts Group
MAG is a collection of specialist teams catering for the needs of larger corporate clients and multinationals headquartered in the UK and Europe as well as companies with more complex risk profiles It incorporates Risk Retention Practice Credit and Surety, M&A, Claims Management and Risk Management teams

Financial and Professional Risks
Heath Lambert is one of the UK's leading brokers catering to the needs of financial institutions, directors and officers and professionals across a range of sectors It also offers specialist professional indemnity insurance services

Personal Lines
This team 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 It also provides a third party claims administration service for clients

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

Specialisms
Heath Lambert has a number of specialist divisions which design, deliver and implement insurance solutions for a range of clients across a number of different industries and sectors The Specialisms Division comprises

Art Jewellery and Private Client Division
The division incorporating Blackwall Green, comprises the largest specialist Fine Art and Specie team in the UK, providing risk management and comprehensive bespoke insurance solutions to some of the world's leading private collectors, artists, antique, commercial art and jewellery dealers, art restorers and conservators, art transporters, galleries and museums It also has a dedicated private client team advising and handling the personal insurances for High Net Worth individuals

Heath Lambert's expert **Italian medical malpractice** team specialises in Italian medical malpractice and medical insurance, providing bespoke insurance solutions for every facet of the medical profession Wordings are offered on a 'claims made' basis and placed with specialist underwriters with unrivalled knowledge of the medical sector

The **Treaty Solutions** team develops and delivers bespoke reinsurance products for clients

Commercial Affinity and Small Business
The CA&SB team comprises sales marketing, operations and business and product development specialists and delivers schemes and facilities for Trade Associations membership organisations and industry specific small businesses across the country

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

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

Heath Lambert Group

133 Houndsditch London EC3A 7AH
Tel +44 (0)20 7560 3000 Fax +44 (0)20 7560 3540 www heathlambert com