HEATH LAMBERT LIMITED

REPORT & ACCOUNTS

31 DECEMBER 2003

Registered Number: 1199129

Contents

Chairman's Statement

Results

The Company made a profit after taxation of £19.7m in the year to 31 December 2003. I believe this result is creditable given the background against which the Company was operating, which is discussed in more detail below.

A New Beginning

On 17 December 2003, we put a period of uncertainty behind us and began to prepare the Heath Lambert Group (of which Heath Lambert Limited is the major subsidiary), for a phase of development characterised by stability, independence and opportunity. Our optimism was driven by a financial restructure which was completed on that date.

The restructuring involved a newly capitalised company, Heath Lambert Holdings Limited, becoming the new parent of the Group. The financial benefit of restructuring was to reduce the Group's liabilities and debt from over £300 million to under £160 million. The opportunity was also taken to simplify the Group's capital structure which is now financed by just one class of equity, and debt.

The ownership of the Group also changed with Intermediate Capital Group plc (including Graphite Capital) coming in as a cornerstone investor with a majority stake. Our staff and management continue to have a significant interest owning approximately a third of the Group and our banks owning the balance. These changes to the capital structure of the Group mean that it is now financially stable and puts the uncertainties of the past firmly behind us.

Throughout the restructuring it was business as usual for all of our operations around the world, including Heath Lambert Limited. None of our clients or markets were affected. The restructure allows us to remain a genuinely strong and seriously credible independent UK broker - there aren't many left and we know that not only our staff cherish this status but both our clients and markets recognise the benefits of having a real alternative to our larger competitors.

As the Group's capital restructuring took place two weeks before its year end the first consolidated financial statements for the new Group will be published for the period ended 31 December 2004. Consequently, I have used this report to update you not only on the progress of the Company but also that of the wider Heath Lambert Group.

Strategy

Since December, there has been a remarkable turnaround at Heath Lambert. We have a clear vision of the shape and strategy we wish the Group to adopt and we have already taken action to put that thinking into practice. In the future we will be primarily a UK and European retailer, an international wholesaler and a reinsurance solution provider.

In pursuit of that objective we have embarked on a successful disposal programme of offices around the world; the net result of which will be to further reduce our debt to approximately half of that taken on immediately following the restructuring. We currently anticipate that the Group will be approximately two thirds of its former size when the disposal programme is completed. Whilst the business will be smaller in

2004 and the results impacted by the repositioning of the Company, we anticipate underlying profitability to improve significantly in 2005 and 2006 as the effect of changes we have made show through.

Alongside our strategy will sit our five basic principles which will drive our business forward: a passion to look after our clients and markets; a determination to pursue new business; a commitment to maximise efficiency; a unified Company approach and a commitment to develop our people.

Indeed, without the tremendous support of our people this turnaround would not have been possible. It is a testament to their skill, professionalism, faith and patience that we are now on the right road. We have radically changed the structure and ethos of the organisation and have many new people in senior positions throughout the Company. We are expecting great things from them.

Prospects

In conclusion, I see a bright future for our business. There is a real enthusiasm around the Company and a huge amount of energy, determination and goodwill. We now need to put the past firmly behind us. We need to embrace the new regulatory regime of the FSA which undoubtedly will result in the most radical change to our industry in 100 years. Its disciplines and controls will only serve to make us more effective in our dealings with our clients and our markets and it is these which are the lifeblood of our business.

Adrian Colosso
Chairman of Heath Lambert Limited

22 July 2004

Directors' Report

The directors submit their report together with the audited financial statements of the Company for the year ended 31 December 2003.

Activities and Review of the Business

The principal activity of the Company, an accredited Lloyd's Broker and a member of the General Insurance Standards Council, continues to be that of insurance broking and the provision of a full range of insurance broking services in the United Kingdom and abroad.

Group Restructuring

As part of a Group restructuring, on 17 December 2003, HLF Group Plc (previously the ultimate holding company), sold its interest in Heath Lambert Group Limited, an intermediate holding company of Heath Lambert Limited, to Heath Lambert Holdings Limited. As a result of this restructuring, the ultimate parent undertaking of Heath Lambert Limited is now Heath Lambert Holdings Limited, a company incorporated in England and Wales. On the same day, Heath Lambert Holdings Limited, entered into new banking facilities in the UK provided by National Westminster Bank. Full details of the new arrangements are disclosed in note 23 on page 18 of these financial statements.

Results and Dividend

The Company's profit after taxation amounted to £19.7m (December 2002: 9 months restated £33.1m).

A final dividend of £35.6m has been paid (December 2002: 9 months £12.5m). During the year, as part of the Group restructuring discussed above, the Company reversed dividends of £30.5m which had previously been declared by the directors but not ratified by the members. Accordingly, the retained profit of £14.6m (December 2002: 9 months restated £20.6m) has been transferred to reserves.

On 28 November 2003 the Company disposed of part of its aviation business. The results of the disposed business are shown as discontinued operations on the face of the profit and loss account and in note 5 on page 12.

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 and press releases and 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.

Consultation with employees and their representatives has continued 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 Company as a whole.

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' Report (continued)

Directors

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

S K Beerh (Appointed 12 December 2003)	A W Pratten (Resigned 12 December 2003)
W D Bloomer	F H M Sanders (Resigned 12 December 2003)
M A Bruce	R J Sansom (Appointed 12 December 2003)
N A Brunning (Resigned 12 December 2003)	P D Smith (Resigned 4 December 2003)
M J Caley (Resigned 25 June 2004)	L G Stevenson (Resigned 1 December 2003)
A Colosso (Appointed 12 December 2003)	C J Sturgess (Appointed 12 December 2003)
S Hitchcock (Resigned 15 October 2003)	R N Thomas
D A Hopwood (Resigned 1 December 2003)	D Thornton
A G Jones	P E Towler (Resigned 12 December 2003)
T P J Liddiard (Resigned 28 November 2003)	T G Watson (Resigned 12 December 2003)
R W M Northcott (Resigned 12 December 2003)	P R Welling (Resigned 12 December 2003)
M K Owen (Appointed 21 June 2004)	

As part of the restructuring, the Group and the Company took the opportunity to simplify and reconstitute the composition of their Boards, taking into consideration impending Financial Services Authority regulation. Whilst many of the above directors stepped down as board members, the majority are still actively involved with the management of the Company by means of its Operational Boards.

Directors' Interests

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

	As at 31 December 2003 Ordinary Shares of 1p
R J Sansom	100

On the date of his appointment as a director R J Sansom had no beneficial interest in the securities of the ultimate parent undertaking.

Payments to Suppliers

The Company has no non-insurance related trade creditors. All such creditors are paid by Heath Lambert Management Limited, a fellow group undertaking. The policy for payment of creditors is disclosed accordingly in the financial statements of Heath Lambert Management Limited.

Directors' Report (continued)

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

Auditors

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

By Order of the Board

WMHoover

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

22 July 2004

Independent Auditors' Report

To the Members of Heath Lambert Limited

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes, which have been prepared under the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the chairman's statement and the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 the information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

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

22 July 2004

Profit and Loss Account

Heath Lambert Limited

For the year ended 31 December 2003

	Notes	12 months to 31 December 2003 £m	9 months to 31 December 2002 (restated see note 3) £m
Turnover			
Continuing operations		149.8	103.7
Discontinued operations	5	12.4	6.3
		162.2	110.0
Administrative expenses:			
Management charge from fellow subsidiary	8	(146.7)	(77.1)
Other administrative expenses	8	(4.0)	(3.6)
		(150.7)	(80.7)
Broking Profit			
Continuing operations		9.2	29.3
Discontinued operations	5	2.3	-
Total Broking Profit		11.5	29.3
Profit on disposal of operations	7	10.2	-
Interest receivable	6	3.0	3.0
Profit on Ordinary Activities before Taxation	8	24.7	32.3
Taxation	9	(5.0)	0.8
Profit on Ordinary Activities after Taxation		19.7	33.1
Dividends paid and proposed	10	(35.6)	(12.5)
Prior year dividends reversed	10	30.5	-
Retained Profit for the Financial Period	19	14.6	20.6

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2003

	Notes	12 months to 31 December 2003 £m	9 months to 31 December 2002 (restated see note 3) £m
Profit on Ordinary Activities after Taxation and Total Recognised Gains and Losses Relating to the Period		19.7	33.1
Prior year adjustment	3	(11.1)	
Total gains recognised since last financial statements		8.6	

The notes on pages 10 to 18 form part of these financial statements.

Balance Sheet

As at 31 December 2003

Heath Lambert Limited

	Notes	31 December 2003 £m	31 December 2002 (restated see note 3) £m
Fixed Assets			
Intangible assets	11	**0.6**	0.7
Current Assets			
Debtors: - Amounts falling due within one year	12	**1,062.2**	1,241.0
- Amounts falling due after one year	12	**1.9**	6.3
Current asset investments	13	**61.5**	60.3
Cash at bank and in hand	14	**48.3**	85.4
		1,173.9	1,393.0
Creditors: – Amounts falling due within one year	15	**(1,038.7)**	(1,313.5)
Net Current Assets		**135.2**	79.5
Total Assets Less Current Liabilities		**135.8**	80.2
Creditors: - Amounts falling due after more than one year	16	**(51.2)**	(12.0)
Provisions for liabilities and charges	17	**(5.9)**	(4.1)
Net Assets		**78.7**	64.1
Capital and Reserves			
Called up share capital	18	**75.0**	75.0
Profit and loss account	19	**3.7**	(10.9)
Equity Shareholders' Funds	20	**78.7**	64.1

Approved by the Board of Directors on 22 July 2004 and signed on its behalf by:

R N Thomas

Director

The notes on pages 10 to 18 form part of these financial statements.

Notes to the Financial Statements

1. Trading Activities

During the year the Company's business was, in part, carried on by certain insurance broking group undertakings acting as agents for the Company. No income was receivable by these Group undertakings and each was indemnified for all expenses and liabilities arising out of such agency.

2. Accounting Policies

(a) Basis of Accounting

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

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.

The Group has adopted FRS5 Application Note G in these financial statements. In order to comply with the requirements of the Application Note the Group has revised its accounting policies and the prior period results have been restated accordingly. Details of the effect of adopting FRS5 Application Note G are given in note 3(a) on page 11.

In addition, two changes to the presentation of other balance sheet items have been made and are explained in note 3(b) and 3(c) on page 12.

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

(d) Taxation

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

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

(e) Foreign Currencies

Assets and liabilities in foreign currencies are expressed in sterling at exchange rates ruling at the balance sheet date. Income earned in foreign currencies is recognised in the profit and loss account at the exchange rate ruling at the date of the transaction or, where a related forward exchange contract has been entered into, at the rate specified in the forward contract. All exchange differences are dealt with in the result before taxation.

(f) Insurance Broking Debtors and Creditors

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable as principals for amounts arising from such transactions. Notwithstanding these legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities. This recognises that the insurance broker is entitled to retain the investment income on any cash flows arising from these transactions.

Debtors and creditors arising from transactions between clients and insurers (e.g. a premium or a claim) are recorded simultaneously. Consequently, there is a high level of correlation between the totals reported in respect of insurance broking debtors and insurance broking creditors.

The position of the insurance broker as agent means that the credit risk is generally borne by the principals. There can be circumstances where the insurance broker acquires credit risk through statute, or through the act or omission of the insurance broker or one of the principals. There is much legal uncertainty surrounding the circumstances and the extent of such exposures. However, the total of insurance broking debtors appearing in the balance sheet is not an indication of credit risk.

Notes to the Financial Statements (continued)

(f) Insurance Broking Debtors and Creditors (continued)

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.

(g) Current Asset Investments

Investments in securities held to maturity are valued at cost, adjusted for the amortisation of discounts or premiums to redemption. The difference between cost and the redemption principal amount is amortised to the profit and loss account on a straight line basis over the life of the security.

(h) Interest Receivable

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

(i) Pension Costs

With only limited exceptions, all employees are employed by Heath Lambert Management Limited. This company operates a number of pension schemes, the details of which can be found in the financial statements of Heath Lambert Management Limited.

Under the agreement between the Company and Heath Lambert Management Limited, Heath Lambert Management Limited recharges only the current service costs of the Group's final salary pension schemes and the contributions in respect of defined contribution schemes. Heath Lambert Management Limited has agreed to meet the obligations arising out of movements in the actuarial valuations of the final salary schemes and the Company is specifically excluded from any liabilities arising from such movements or funding any deficit. Accordingly, the Company accounts for all pension contributions as if they are defined contribution arrangements.

(j) Cash Flow Statement

The Company is a wholly owned subsidiary of Heath Lambert Group 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).

3. Prior Year Adjustments

(a) During the year, following the introduction of FRS5 Application Note G 'Revenue Recognition;' the Company has changed its accounting policy for the recognition of brokerage income. Previously, with the exception of multi-year policies, brokerage was recognised in full on the inception date of the policy. Following the introduction of FRS5 Application Note G the Company recognises that all of its contractual obligations as a broker, particularly in the area of claims handling, are not discharged by the inception of the policy. As a result, the Board of Directors considers it appropriate to defer a portion of the Company's brokerage income to be released to the profit and loss account over the period in which future claims handling costs are incurred.

This change in accounting policy has given rise to a restatement of results and net assets of the prior period as set out below:

	Retained Profit for the period after dividends Dec 2002 £m	Net Assets Dec 2002 £m
As previously reported	21.9	75.2
Effect of change in income recognition policy	(1.3)	(11.1)
As restated	**20.6**	**64.1**

Current year profits have been reduced by £0.2m following the change in accounting policy.

3. Prior Year Adjustments (continued)

(b) In accordance with the requirements of FRS12 'Provisions, Liabilities and Assets' the Company has restated its prior period balance sheet to reflect provisions gross of any related third party recovery, any such recovery being included within debtors. In the prior period litigation provisions and other debtors have been increased by £2.3m.

(c) During the year the Company amended the method by which its Insurance broking debtors and Insurance broking creditors are grossed up to meet the requirements of FRS5, 'Reporting the Substance of Transactions'. As a result, Insurance broking debtors and creditors as at 31 December 2002 have been restated to reflect the change in calculation method. Both Insurance broking debtors and creditors have been reduced by £1,387.4m at 31 December 2002. The net assets of the Company remain unchanged.

4. Segmental Reporting

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

	12 months to 31 December 2003 £m	9 months to 31 December 2002 (restated) £m
UK	**103.8**	65.3
Continental Europe	**16.1**	10.7
Asia & Australasia	**7.2**	5.5
The Americas	**34.1**	27.6
Other	**1.0**	0.9
	162.2	110.0

The above table 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.

5. Discontinued Operations

	12 months to 31 December 2003			9 months to 31 December 2002		
	Continuing £m	Discontinued £m	Total £m	Continuing (restated) £m	Discontinued £m	Total (restated) £m
Turnover	**149.8**	**12.4**	**162.2**	103.7	6.3	110.0
Administration expenses	**(140.6)**	**(10.1)**	**(150.7)**	(74.4)	(6.3)	(80.7)
Broking profit	**9.2**	**2.3**	**11.5**	29.3	-	29.3

The discontinued operations comprise the part of the aviation business disposed of on 28 November 2003.

The majority of expenses are paid on behalf of the Company by Heath Lambert Management Limited, a fellow Group undertaking and are recharged to the Company by way of a management charge. The element of the management charge attributable to discontinued operations is disclosed as an expense of the discontinued operations.

6. Interest Receivable

	12 months to 31 December 2003 £m	9 months to 31 December 2002 £m
Interest receivable and other similar income	**3.0**	3.0

Notes to the Financial Statements (continued)

7. Exceptional items - Profits on Disposal of Operations

	12 months to 31 December 2003 £m	9 months to 31 December 2002 £m
Partial disposal of aviation business	8.9	-
Sale of other brokerage portfolios	1.3	-
	10.2	-

Due to the availability of tax losses there was no charge to corporation tax in respect of the above disposals

8. Profit on Ordinary Activities before Taxation

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

	12 months to 31 December 2003 £m	9 months to 31 December 2002 £m
Wages and salaries	72.1	53.6
Social security costs	7.1	4.9
Other pension costs	8.7	6.5
Amortisation of goodwill (note 11)	0.1	0.1
Change in basis of estimation of income accrued in prior years (see note (a))	-	3.6
Management charge in respect of FRS17 (see note (b))	-	(39.8)

All administrative functions are performed by staff employed by Heath Lambert Management Limited, a fellow Group undertaking. The net management charge of £146.7m (December 2002: 9 months £77.1m) levied represents the allocation of salary and other costs associated with the administration of the Company.

Auditors' remuneration of £0.4m (December 2002: 9 months £0.4m) is borne on behalf of Heath Lambert Limited by Heath Lambert Management Limited, a fellow Group undertaking.

(a) The application of the accounting policy for brokerage received and marketing payments paid in connection with certain travel insurance policies was reviewed during the previous period.

Brokerage is recognised on inception of the risk which the Company previously took to be inception of the lead policy. The Directors believe it is more appropriate to recognise brokerage on inception of the underlying travel insurance policies. Marketing payments made upfront were previously deferred to match with future brokerage receivable. The Company now considers it is more appropriate to expense these payments when incurred on the basis that it is not possible to assess the likelihood of recovery with any degree of certainty at that stage.

In the prior period turnover was reduced by £1.6m and operating expenses were increased by £2m to recognise the impact of this review.

(b) During the prior period, the agreement between the Company and Heath Lambert Management Limited in respect of pension recharges was amended. In conjunction with HLF Group plc, the former ultimate parent company, Heath Lambert Management Limited has agreed to meet any FRS17 liabilities arising from movements in the actuarial valuations of the Group's final salary pension schemes and the Company will meet only the current service costs incurred by Heath Lambert Management Limited. Accordingly, the Company accounts for pension contributions as if they are defined contribution arrangements.

During the periods up to and including 31 March 2002 the Company was charged £39.8m in respect of the movement in the pension scheme deficit. As a result of the amendments to the agreement described above, the total recharge of £39.8m was reversed through administrative expenses during the prior period.

9. 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/(Credit) in Period

	12 months to 31 December 2003 £m	9 months to 31 December 2002 (restated) £m
Current tax		
UK Corporation tax on profits of the period	-	0.1
Adjustments in respect of prior years	0.6	1.2
	0.6	1.3
Deferred Tax		
UK deferred tax of the period	4.5	(2.1)
Adjustments in respect of prior years	(0.1)	-
	4.4	(2.1)
Tax on profit on ordinary activities	5.0	(0.8)

Reconciliation of Corporation Tax Charge:

	12 months to 31 December 2003 £m	9 months to 31 December 2002 (restated) £m
Profit on Ordinary Activities before Taxation	24.7	32.3
Standard rate of corporation tax in UK of 30%	7.4	9.7
The UK corporation tax charge for the period has been affected by:		
Adjustments to tax charge in respect of previous periods	0.6	1.2
Income covered by capital losses	(2.8)	-
Current period losses not utilised in period	-	1.8
Tax effect of FRS17 recharge (see note 8)	-	(11.9)
Tax effect of change in accounting policy for income recognition (see note 3)	(4.6)	0.5
	0.6	1.3

Deferred Taxation Asset

	December 2003 £m	December 2002 (restated) £m
Deferred tax assets have been recorded as follows:		
Short term and other timing differences	1.9	6.3

Movements in deferred taxation:	
At 1 January 2003	6.3
(Charge)/credit to profit and loss account	(4.4)
At 31 December 2003	1.9

The short term and other timing differences represent unutilised trading losses. Based on profit forecasts, the directors anticipate that these losses will be utilised in full against future profits.

Notes to the Financial Statements (continued)

10. Dividends

	12 months to 31 December 2003 £m	9 months to 31 December 2002 £m
Final dividend declared	**35.6**	12.5
Prior year dividends reversed	**(30.5)**	-
	5.1	12.5

During the year, as a part of the group restructuring described on pages 2 to 4, the Company reversed dividends of £30.5m which had previously been declared by the directors but not ratified by the members.

11. Intangible Assets

	Goodwill arising on acquisitions £m
Cost	
At 1 January 2003 and at 31 December 2003	0.9
Amortisation	
At 1 January 2003	0.2
Charge for the year	0.1
At 31 December 2003	0.3
Net Book Value	
At 31 December 2003	0.6
At 31 December 2002	0.7

12. Debtors

Amounts falling due within one year:	December 2003 £m	December 2002 (restated) £m
Insurance broking debtors	**913.6**	1,131.2
Amounts owed by group undertakings	**139.8**	107.3
Other debtors	**8.8**	2.5
Total debtors	**1,062.2**	1,241.0
Amounts falling due after one year:		
Deferred taxation (see note 9)	**1.9**	6.3
Total debtors	**1,064.1**	1,247.3

Insurance broking debtors include £4.9m (31 December 2002: £4.2m) owed by group undertakings.

Of the amounts owed by Group undertakings £36.1m has been repaid since the year-end, the balance is repayable on demand but is unlikely to be repaid within 12 months of the balance sheet date.

Notes to the Financial Statements (continued)

13. Current Asset Investments

	December 2003 £m	December 2002 £m
Short term investments	**61.5**	60.3

Short term investments consist primarily of government bonds and corporate loan stock. These investments are held for the benefit of insurance broking creditors as required by the General Insurance Standards Council ("GISC") Practice Requirement G1.

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

14. Cash at Bank and in Hand

	December 2003 £m	December 2002 £m
Cash at bank and in hand	**48.3**	85.4

The Company holds monies in insurance broking bank accounts for the benefit of insurance broking creditors as required by the General Insurance Standards Council ("GISC") Practice Requirement G1. As at 31 December 2003 this amounted to £48.3m (31 December 2002: £85.4m).

15. Creditors – Amounts Falling Due Within One Year

	December 2003 £m	December 2002 (restated) £m
Insurance broking creditors	**1,020.7**	1,260.0
Amounts owing to group undertakings	**12.8**	34.8
Other creditors	**0.3**	4.5
Corporation tax	**-**	7.0
Accruals and deferred income	**4.9**	7.2
	1,038.7	1,313.5

Insurance broking creditors include £30.2m (31 December 2002: £26.4m) owing to group undertakings.

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

	December 2003 £m	December 2002 (restated) £m
Amounts owing to group undertakings	**39.1**	-
Accruals and deferred income	**12.1**	12.0
	51.2	12.0

17. Provisions for Liabilities and Charges

	Provision for Litigation £m
At 1 January 2003 (restated)	4.1
Utilised during the year	(0.6)
Provided in the year	2.4
Balance at 31 December 2003	5.9

Notes to the Financial Statements (continued)

17. Provisions for Liabilities and Charges (continued)

The Company faces a number of complex and lengthy litigation matters, the resolution of which is uncertain, which have arisen in the ordinary course of business. Such actions, which have become 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. The provision is subject to regular review by the Group's legal department, external legal advisers and the directors.

As described in note 3(b), the Company has restated its prior year balance sheet to reflect provisions gross of any related third party recovery.

18. Share Capital

	December 2003 £m	December 2002 £m
75,000,000 authorised, allocated and fully paid ordinary shares of £1 each	**75.0**	75.0

19. Reserves

	Profit and Loss Account £m
At 1 January 2003 as previously stated	0.2
Prior year adjustment (see note 3)	(11.1)
At 1 January 2003 as restated	(10.9)
Retained profit for the year	14.6
At 31 December 2003	3.7

The cumulative amount of goodwill eliminated directly against reserves at 31 December 2003 was £4.8m (31 December 2002: £4.8m).

20. Reconciliation of Movements in Shareholders' Funds

	December 2003 £m	December 2002 (restated) £m
Profit for the financial year	**19.7**	33.1
Dividends paid and proposed	**(35.6)**	(12.5)
Prior year dividends reversed	30.5	-
New share capital issued	-	50.0
Net addition to shareholders' funds	**14.6**	70.6
Opening shareholders' funds as previously stated	**75.2**	3.3
Prior year adjustments	**(11.1)**	(9.8)
Opening shareholders' funds as restated	**64.1**	(6.5)
Closing shareholders' funds	**78.7**	64.1

21. Directors and Employees

The aggregate amount of directors' emoluments (all of which are borne by fellow group undertakings) excluding pension contributions was £3,217,870 (December 2002: 9 months £2,129,075). The emoluments of the highest paid director were £390,469 (December 2002: 9 months £222,455) and the Company contribution to a defined contribution pension scheme in respect of the highest paid director was £62,944 (December 2002: 9 months £45,900). Retirement benefits are accruing to 9 directors (December 2002: 17) under the Group defined benefit scheme and one (December 2002: one) director under a defined contribution scheme.

Notes to the Financial Statements (continued)

22. Transactions Involving Directors and Others

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

23. Commitments and Contingent Liabilities

The Company and certain fellow Group companies were guarantors of loan facilities provided by National Westminster Bank and other lenders to the Company, HLF Group plc (formerly the ultimate parent undertaking), and certain fellow Group companies. On 17 December 2003, as part of the group restructuring described in the Directors' Report on page 4, the Company was released from its obligations and guarantees under these facilities. Following the subsequent acquisition of the Company by Heath Lambert Holdings Limited (the new ultimate parent undertaking), the Company entered into new guarantees under the new loan facilities provided by National Westminster Bank and other lenders to the Heath Lambert Holdings group of companies.

At 31 December 2003, there was £156.6m drawn down under these facilities (31 December 2002: £187.4m under previous facilities). The potential additional contingent liability in respect of the maximum drawdown under these facilities is £nil (December 2002: £7.6m under previous facilities). The facilities are secured against the assets and liabilities of the Company under a deed dated 17 December 2003. The facilities also continue to be secured by fixed and floating charges over the assets of the ultimate parent company and certain fellow Group companies.

The loans under the new facilities are due for repayment in instalments up to July 2006.

There were no capital commitments in respect of future capital expenditure on fixed assets at 31 December 2003 (31 December 2002: £nil).

At 31 December 2003 the Company had forward foreign exchange contract commitments to sell US$60.0m (31 December 2002: US$80m). These contracts are at an average exchange rate of US$1.3828 (31 December 2002: US$1.3827), all maturing prior to 2 April 2004.

24. FSA – Financial Rule Changes

In January 2005 the Insurance Broking Industry will be regulated by the Financial Services Authority ("FSA"). The new regulatory environment will require brokers to change the way they can draw funds from the insurance broking accounts and will therefore change the working capital requirements of the insurance broking market as a whole. The Group and Company have discussed the potential requirement arising for the Company with their facility providers, who have responded positively.

25. Related Party Disclosures

As a wholly owned subsidiary undertaking of Heath Lambert Holdings Limited, the Company has taken advantage of the exemption in FRS8 "Related party disclosures" not to disclose transactions with other members of the group headed by Heath Lambert Holdings Limited. During the year the Company was charged £7.5m by HLF Group plc in respect of corporation tax group relief surrendered to the Company. During the year the Company repaid in full the inter-company balance owed to HLF Group plc, therefore at 31 December 2003 an amount of £nil (31 December 2002: £4.6m) was owed by the Company to HLF Group plc.

26. Ultimate Parent Company

At 31 December 2003, the Company's ultimate parent undertaking was Heath Lambert Holdings Limited, a company registered in England. The Company's immediate parent undertaking was Friary Intermediate Limited, a company registered in England. Prior to 17 December 2003, the Company's ultimate parent undertaking was HLF Group plc, a company registered in England.

The smallest and largest undertaking for which group financial statements are prepared and of which the Company is a member are those headed by Heath Lambert Group Limited. Copies of these group financial statements may be obtained from the Company Secretary at Friary Court, Crutched Friars, London EC3N 2NP. Heath Lambert Holdings Limited will prepare its first consolidated financial statements for the period ended 31 December 2004.