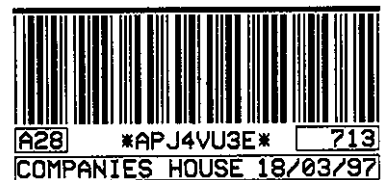


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BEAZLEY FURLONGE LIMITED

REPORT AND MODIFIED FINANCIAL STATEMENTS

30 JUNE 1996



BEAZLEY FURLONGE LIMITED

DIRECTORS AND ADVISORS

Directors

Joseph D Sargent - chairman
Andrew F Beazley
Nicholas H Furlonge
George P Blunden
Jonathan G Gray
Neil P Maidment
Arthur R Manners
Johnny G B Rowell

Secretary

Julia H. Kingston

Registered office

18 London Street
London
EC3R 7JP

Registered Number: 1893407

Auditors

KPMG
8 Salisbury Square
London
EC4Y 8BB

Bankers

Lloyds Bank Plc
113-116 Leadenhall Street
London
EC3A 4AX

BEAZLEY FURLONGE LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Beazley Furlonge Limited, will be held at 18 London Street, London EC3R 7JP on Thursday 2nd January 1997 at 2.30pm for the following purposes:

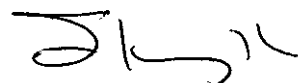
Ordinary business

1. To receive, approve and adopt the modified financial statements of the company for the year ended 30 June 1996 together with the directors' and auditors' reports thereon.
2. To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:
"That KPMG Audit Plc be and are hereby appointed auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company at a remuneration to be fixed by the directors."
3. To transact any other ordinary business.

Special business

1. To approve a bonus issue of ordinary shares of £75,000.

By order of the board



Julia H. Kingston
Secretary

3 December 1996

Notes:

A member entitled to attend and vote may appoint one or more proxies to attend and vote instead of him. The instrument of proxy must be in writing and specify whether the proxy is to vote for or against the specified resolutions except where such resolution is a motion for adjournment or for the appointment of a chairman.

A proxy need not also be a member.

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited modified financial statements for the year ended 30 June 1996.

Business review and future developments

The principal activity of the company is that of Lloyd's underwriting agents.

The capacity of the managed syndicate, syndicate 623, remained at £90 million for 1996.

Lloyd's Settlement

As part of the Reconstruction and Renewal Plan, managing and members' agents have agreed to contribute to the settlement package. The company's contribution is £1,453,575 and has been funded by the Names of Syndicate 623 by way of an advance of profit commission for the 1993 and 1994 years of account.

Profit and appropriations

The results for the year are shown in the profit and loss account on page 6. The directors did not pay an interim dividend this year but do recommend payment of a final dividend of £1.60 pence per share (1995 - interim dividend 56.45 pence, final dividend Nil pence). The surplus remaining after payment of dividend of £77,007 has been transferred to reserves (1995 - deficit of 140,831 transferred from reserves).

There will be a proposal at the forthcoming Annual General Meeting of the Company to issue £75,000 ordinary shares of £1 each by way of a bonus issue out of existing reserves.

Directors

The names of the directors who served during the year and at the date of this report are listed on page 1.

Directors interests

Details of beneficial interests of the directors are shown in note 15 of the modified financial statements.

Fixed assets

Details of fixed assets are set out in note 7 to the modified financial statements.

Charitable donations

During the year the company paid £1,320 in charitable donations (1995 - £450).

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare modified financial statements for each financial year 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 modified financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 modified financial statements;
- prepare the modified 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 modified 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.

Auditors

Our auditors KPMG have indicated to the directors that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, they have indicated their intention to resign and the directors intend to appoint KPMG Audit Plc as auditors.

By order of the board



Julia H. Kingston
Secretary

18 London Street
London
EC3R 7JP

3 December 1996

BEAZLEY FURLONGE LIMITED

AUDITORS' REPORT TO THE MEMBERS OF BEAZLEY FURLONGE LIMITED

We have audited the modified financial statements on pages 6 to 14 in accordance with Auditing Standards.

Respective responsibilities of directors and auditors

As described on page 4 of the modified financial statements the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those modified financial statements and to report our opinion to you.

Basis of 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 modified financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the modified 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 modified 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 modified financial statements.

Opinion

In our opinion the modified financial statements give a true and fair view of the state of the company's affairs at 30 June 1996 and of its profit for the year then ended and have been properly prepared in accordance with the requirements of the Companies Act 1985 applicable to small companies.

KPMG

KPMG
Chartered Accountants
Registered Auditors

8 Salisbury Square
London
EC4Y 8BB

3 December 1996

BEAZLEY FURLONGE LIMITED

PROFIT & LOSS ACCOUNT
YEAR ENDED 30 JUNE 1996

	<u>Note</u>	<u>1996</u> £	<u>1995</u> £
Turnover	2	1,676,186	468,791
Administrative expenses	3	(966,230)	(467,070)
Operating profit		709,956	1,721
Interest receivable		9,042	10,599
Profit on ordinary activities before taxation	3	718,998	12,320
Taxation	5	(241,991)	(12,024)
Profit on ordinary activities after taxation		477,007	296
Dividends	6	(400,000)	(141,127)
Retained (loss)/profit for the year	11	£77,007	£(140,831)

The company's turnover and expenses all relate to the continuing operations. There were no recognised gains or losses during the year other than those passing through the profit and loss account. The notes on pages 8 to 14 form part of these modified financial statements.

RECONCILIATION OF MOVEMENTS IN
SHAREHOLDERS' FUNDS

	<u>1996</u> £	<u>1995</u> £
Profit for the financial year	477,007	296
Dividends	(400,000)	(141,127)
	77,007	(140,831)
Opening shareholders funds	250,296	391,127
Closing shareholders funds	£327,303	£250,296

BEAZLEY FURLONGE LIMITED

NOTES TO THE MODIFIED FINANCIAL STATEMENTS

1. Accounting policies

Basis of accounting

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

Turnover

Turnover represents salaries and profit commission derived from underwriting Names at Lloyd's.

Agency salaries represent net retained salaries in respect of one half of the 1995 underwriting account and one half of the 1996 underwriting account (1995 - one half of the 1994 underwriting account and one half of the 1995 underwriting account).

Profit Commission is normally accounted for on a received basis. However, due to the Lloyd's Reconstruction and Renewal plan, the receipt of profit commission for the 1993 year of account was delayed until after the year end. Prior to the receipt of the profit commission on the 1993 closed year of account an advance payment of profit commission on the 1993 and 1994 years of account was used to fund the company's contribution to the settlement package. This advance of profit commission has not been included in the turnover and only the surplus of profit commission actually received by the company over that used to fund the Pomeroy settlement has been included in turnover.

Operating leases

Rentals payable under operating leases are charged on a straight line basis over the term of the lease.

Depreciation

Depreciation of tangible fixed assets is calculated by reference to cost at rates estimated to write off the relevant assets over their expected useful lives, taking into account normal commercial and technical obsolescence.

The annual rates used are:

Computer equipment	33 1/3% on cost
Furniture and equipment	20% on cost
Motor vehicles	25% on cost
Leasehold buildings	Over period of lease

Deferred taxation

Deferred taxation is accounted for on all timing differences to the extent that tax liabilities are likely to crystallize in the foreseeable future.

BEAZLEY FURLONGE LIMITED

NOTES TO THE MODIFIED FINANCIAL STATEMENTS (continued)

2. Turnover and profit

		<u>1996</u>	<u>1995</u>
		£	£
Underwriting agency salaries		454,357	£468,791
Underwriting profit commission			
Advance profit commission			
1993 year of account	1,002,704		
Advance profit commission			
1994 year of account	450,871		
Pomeroy Levy	(1,453,575)		
Received by the Company			
1993 Closed Year of account profit commission	1,221,829	1,221,829	-
		£1,676,186	£468,791

Turnover and profit before taxation arise in the United Kingdom, mainly from business underwritten at Lloyd's on behalf of Names resident in the United Kingdom and overseas.

3. Profit on ordinary activities before taxation

	<u>1996</u>	<u>1995</u>
	£	£
Profit on ordinary activities before taxation is stated after charging and crediting the following:-		
Depreciation including profit on sale	48,146	63,687
Auditors' remuneration - audit	7,500	6,000
- other	150	9,300
Staff costs	2,774,106	1,834,751
Rental payments under operating leases		
- buildings	78,052	65,497
- motor vehicles	87,312	100,073
Other costs	2,995,266	2,079,308
Recharged to managed syndicate	239,440	1,879,250
	(2,268,476)	(3,491,488)
	£966,230	£467,070

BEAZLEY FURLONGE LIMITED

NOTES TO THE MODIFIED FINANCIAL STATEMENTS (continued)

4. Directors emoluments

The total emoluments paid to directors during the year amounted to £1,364,186 (1995 £870,434).
All were paid in respect of management services.

5. Taxation

	<u>1996</u>	<u>1995</u>
	£	£
UK corporation tax on:		
Profit on ordinary activities		
at 33% (1995 33%)	242,813	13,471
Adjustment in respect of prior year	(822)	(1,447)
	<hr/>	<hr/>
	£241,991	£12,024
	<hr/>	<hr/>

Provision for deferred taxation has not been made as it is considered immaterial.

6. Dividend

	<u>1996</u>	<u>1995</u>
	£	£
Interim paid Nil (1995 - 56.45 p per share)	-	141,127
Final recommended - £1.60p per share		
(1995 Nil)	400,000	-
	<hr/>	<hr/>
	£400,000	£141,127
	<hr/>	<hr/>

BEAZLEY FURLONGE LIMITED

NOTES TO THE MODIFIED FINANCIAL STATEMENTS (continued)

7. Tangible fixed assets

	Short leaseholds £	Furniture motor vehicles & equipment £	Total £
Cost			
1 July 1995	40,357	246,857	287,214
Additions	-	28,942	28,942
Disposals	-	-	-
30 June 1996	<u>£40,357</u>	<u>£275,799</u>	<u>£316,156</u>
Depreciation			
1 July 1995	40,357	147,457	187,814
Charge for the year	-	48,146	48,146
Disposals	-	-	-
30 June 1996	<u>£40,357</u>	<u>£195,603</u>	<u>£235,960</u>
Net book amount			
30 June 1995	<u>£ -</u>	<u>£99,400</u>	<u>£99,400</u>
30 June 1996	<u>£ -</u>	<u>£80,196</u>	<u>£80,196</u>

8. Debtors

	<u>1996</u> £	<u>1995</u> £
Amounts due from group companies	7,112	69,994
Other debtors	1,257,927	81,186
Prepayments and accrued income	9,180	7,231
	<u>£1,274,219</u>	<u>£158,411</u>

BEAZLEY FURLONGE LIMITED

NOTES TO THE MODIFIED FINANCIAL STATEMENTS (continued)

9. Creditors: amounts falling due within one year

	<u>1996</u>	<u>1995</u>
	£	£
Corporation tax	245,280	13,471
Other creditors and social security	52,593	22,134
Accruals and deferred income	531,354	84,499
Proposed dividend	400,000	-
Amounts due to group companies	110,000	-
	<hr/>	<hr/>
	£1,339,227	£120,104
	<hr/>	<hr/>

10. Share capital

	<u>1996</u>	<u>1995</u>
	£	£
Authorised 250,000 ordinary shares of £1 each	£250,000	£250,000
	<hr/>	<hr/>
Allotted called up and fully paid 250,000 ordinary shares of £1 each	£250,000	£250,000
	<hr/>	<hr/>

11. Profit and loss account

	<u>1996</u>	<u>1995</u>
	£	£
At 1 July 1995	296	141,127
Retained (loss)/profit for the year	77,007	(140,831)
	<hr/>	<hr/>
At 30 June 1996	£77,303	£296
	<hr/>	<hr/>

BEAZLEY FURLONGE LIMITED

NOTES TO THE MODIFIED FINANCIAL STATEMENTS (continued)

12. Pension commitments

The company operates a pension scheme providing benefits based on final pensionable pay. The pension scheme was set up under trust and the assets of the scheme are held separately from those of the company.

The pension cost charged to the profit and loss account is calculated by an independent actuary, in such a way as to spread the cost of pensions over the employees' working lives with the company.

The pension cost is based on actuarial valuation carried out with an effective date of 31 March 1995. The actuarial method used to calculate the pension cost was the projected unit method. The most significant assumptions for their effect on the pension costs are those relating to the rate of return on the investments of the scheme and rate of increase in salaries and pensions and the rate of dividend growth. The investment return used was 9½% p.a. The rate of earnings increase used was 7% p.a. and the rate of pension increase used was 4% p.a. The rate of dividend growth was 4½% p.a.

The pension cost recommended to be charged to the profit and loss account for each year over the period 31 March 1995 to 31 March 1998 is 19.8% p.a. of pensionable salaries. This cost was after an enhancement of 0.5% p.a. of pensionable salaries in respect of the amortisation of past underfunding. The total amortisation period is 18 years, the average remaining service life of the active employees in the scheme. Premiums for death-in-service benefits are payable in addition.

The actuarial valuation at 31 March 1995 showed that the market value of the assets was £894,841. The actuarial value of those assets represented 93.6% of the liability (under the valuation method used) for the scheme benefits in respect of service to the valuation date, based on salaries projected to members' expected date of leaving service. This is a non-contributory pension scheme.

Summary of results	% Pensionable salaries
Regular cost for future service retirement benefits	19.3
Variation to regular cost in respect of deficit	<u>0.5</u>
Total for retirement benefits	19.8
Death-in-service contributions are payable in addition.	
Deficit for accounting purposes	£61,000
Market value of assets	£894,841
Funding level	93.6%

The pension cost charge amounting to £311,801 (1995 - £198,982), representing contributions payable by the company, was recharged in the appropriate proportion to the managed syndicate. There were no outstanding contributions at 30 June 1996.

BEAZLEY FURLONGE LIMITED

NOTES TO THE MODIFIED FINANCIAL STATEMENTS (continued)

13. Ultimate holding company

The ultimate holding company is Beazley Furlonge Holdings Limited, a company incorporated in England. The group modified financial statements can be obtained from the Regional Office address given on page 1 of these accounts.

14. Contingent liabilities and financial commitments

The exact amount of profit commission arising on the 1994 year of account cannot be finalised until closure of this year of account in 1997. In the event that the profits of the syndicate are significantly lower than anticipated, the profit commission receivable by the agency may be less than received in advance. Under such circumstances the managing agent will have a liability to repay any profit commission received in excess of that due.

The company gave notice on 5 October 1996 to terminate its leasehold tenancy agreement on 6 May 1997. At 30 June 1996, the company committed to make rental payments amounting in the aggregate to £27,594 in respect of the period to 6 May 1997.

15. Directors' interests

The beneficial interests of the directors, who have served throughout the year unless otherwise indicated, in the ordinary share capital of the ultimate holding company as at 1 July 1995 and 30 June 1996 were as follows:-

	1 July 1995 and 30 June 1996 Ordinary Shares of £1 each	1 July 1995 and 30 June 1996 Share Options
A F Beazley	262,500	-
N H Furlonge	262,500	-
N P Maidment	35,000	27,500
J G Gray	35,000	35,000
J G B Rowell	70,000	35,000
A R Manners	14,000	14,000
J D Sargent	10,500	-
G P Blunden	3,500	-

BEAZLEY FURLONGE LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 JUNE 1996

(for internal use only and not forming part of the statutory accounts)

	1996	1995
Income:	£	£
Agency salaries	454,357	468,791
Profit commission	1,221,829	-
Deposit interest	9,042	10,599
	<hr/> 1,685,228	<hr/> 479,390
Expenses:		
Directors' salaries	594,617	137,930
Non-exec directors' fees	20,023	20,960
Staff sals, pensions, NHI cont	90,102	27,537
Rent, rates, light and heat	15,003	14,214
Stationery & office supplies	1,784	1,359
Publicity	300	724
Telephone & postage	6,642	5,395
Insurance	717	800
Conference expenses	248	292
Travelling and entertaining	9,115	9,224
Car expenses	3,764	4,797
Subscriptions and donations	(906)	12,224
Repairs and maintenance	2,939	320
Staff welfare	9,506	10,403
Legal and professional	2,732	4,873
Computer expenses	4,571	1,864
Accounting services	13,725	13,600
Audit, taxation and advice	7,981	19,141
Provision for doubtful debt	726	(2,718)
Bank interest and charges	929	334
General expenses	1,103	1,536
VAT irrecoverable	6,736	7,487
Depreciation & amortisation including profit on sale	48,147	63,687
Computer equipment recharge - BFH Ltd	-	8,961
Management charge - BFH Ltd	168,530	167,000
	<hr/> 1,009,034	<hr/> 531,944
Expenses recharged to managed syndicate	(42,804)	(64,874)
	<hr/> 966,230	<hr/> 467,070
Profit for the year	718,998	12,320
Taxation	(241,991)	(12,024)
	<hr/> 477,007	<hr/> 296
Profit for year after tax	477,007	296
Dividends paid/proposed	400,000	141,127
	<hr/> £77,007	<hr/> £(140,831)