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BEAZLEY FURLONGE LIMITED

REPORT AND FINANCIAL STATEMENTS

30 JUNE 1997



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
Tom Sullivan (appointed 30 June 1997)
Kevin McHugh (appointed 30 June 1997)

Secretary

Julia H Kingston

Registered office

1 Aldgate
London
EC3N 1AA

Registered Number: 1893407

Auditors

KPMG Audit Plc
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 1 Aldgate, London EC3N 1AA on 12 December 1997 at 2.00 p.m. for the following purposes:

Ordinary business

1. To receive, approve and adopt the financial statements of the company for the year ended 30 June 1997 together with the directors' and auditors' report 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.

By order of the board



Julia H. Kingston
Secretary

28 November 1997

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 financial statements for the year ended 30 June 1997.

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 1997.

Profit and appropriations

The results for the year are shown in the profit and loss account on page 6. The directors paid an interim dividend of £272,000 (1996 - Nil). The directors do not recommend payment of a final dividend this year (1996 - £400,000). The surplus remaining of £84,481 has been transferred to reserves (1996 - £77,007).

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 financial statements.

Fixed assets

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

Charitable donations

During the year the company paid £5,223 in charitable donations (1996 - £1,320).

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare 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 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 financial statements;
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the board



Julia H. Kingston
Secretary

1 Aldgate
London
EC3N 1AA

28th November 1997

BEAZLEY FURLONGE LIMITED

AUDITORS' REPORT TO THE MEMBERS OF BEAZLEY FURLONGE LIMITED

We have audited the financial statements on pages 6 to 18 in accordance with Auditing Standards.

Respective responsibilities of directors and auditors

As described on page 4 of the 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 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 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 information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 1997 and of its profit for the year then ended and have been properly prepared in accordance with the requirements of the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

28th November 1997

BEAZLEY FURLONGE LIMITED

PROFIT & LOSS ACCOUNT
YEAR ENDED 30 JUNE 1997

	<u>Note</u>	<u>1997</u> £	<u>1996</u> £
Turnover	2	1,014,053	1,676,186
Administrative expenses	3	(526,739)	(966,230)
Operating profit		487,314	709,956
Interest receivable		38,640	9,042
Profit on ordinary activities before taxation	3	525,954	718,998
Taxation	5	(169,473)	(241,991)
Profit on ordinary activities after taxation		356,481	477,007
Dividends	6	(272,000)	(400,000)
Retained profit/(loss) for the year	11	£84,481	£77,007

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 10 to 18 form part of these financial statements.

RECONCILIATION OF MOVEMENTS IN
SHAREHOLDERS' FUNDS

	<u>1997</u> £	<u>1996</u> £
Profit for the financial year	356,481	477,007
Dividends	(272,000)	(400,000)
	84,481	77,007
Opening shareholders funds	327,303	250,296
Closing shareholders funds	£411,784	£327,303

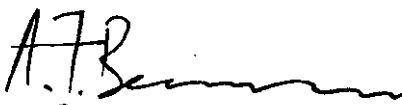

BEAZLEY FURLONGE LIMITED

BALANCE SHEET

30 JUNE 1997

	<u>Note</u>	<u>1997</u> £	<u>1996</u> £
Fixed assets			
Tangible assets	7	254,939	80,196
Current assets			
Debtors	8	72,027	1,274,219
Cash at bank		859,473	312,115
		<hr/>	<hr/>
		931,500	1,586,334
Creditors: amounts falling due within one year	9	774,655	1,339,227
		<hr/>	<hr/>
Net current assets		156,845	247,107
		<hr/>	<hr/>
Net assets		£411,784	£327,303
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	10	325,000	250,000
Profit and loss account	11	86,784	77,303
		<hr/>	<hr/>
		£411,784	£327,303
		<hr/>	<hr/>

The financial statements on pages 6 to 18 were approved by the board of directors on 28th November 1997.

A F Beazley )
A R Manners ) Directors

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

BEAZLEY FURLONGE LIMITED

CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 1997

	<u>Note</u>	For the year ended <u>1997</u> £	For the year ended <u>1996</u> £
Net cash inflow from operating activities	A	1,393,762	229,609
Returns on investments and Servicing of finance:			
Interest paid		(364)	(1)
Interest received		38,640	9,042
		<hr/> 38,276	<hr/> 9,041
Taxation paid		<hr/> (243,818)	<hr/> (10,182)
Capital expenditure			
Purchases of tangible fixed assets		(261,712)	(28,942)
Proceeds from sales of tangible fixed assets		<hr/> 20,850	<hr/> -
		<hr/> (240,862)	<hr/> (28,942)
Equity dividends paid		<hr/> (400,000)	<hr/> -
Net cash inflow before management of liquid resources and financing		<hr/> 547,358	<hr/> 199,526
Financing		<hr/> -	<hr/> -
Increase in cash in the period	B, C	<hr/> £547,358	<hr/> £199,526

BEAZLEY FURLONGE LIMITED

CASH FLOW STATEMENT - FOR YEAR ENDED 30 JUNE 1997 - NOTES

Note A

Reconciliation of operating profit to net cash inflow from operating activities

Operating profit	487,314	709,956
Depreciation of tangible fixed assets	69,819	48,146
Interest paid added back	346	1
Profit on sale of fixed assets	(3,700)	-
(Increase)/decrease in debtors	1,202,192	(1,115,808)
(Decrease)/increase in creditors	(363,227)	587,314
	<hr/>	<hr/>
	£1,393,762	£229,609
	<hr/>	<hr/>

Note B

Reconciliation of net cash flow to movement in net funds

Increase in cash in the year	547,358	199,526
Cash (inflow)/outflow from change in debt	-	-
	<hr/>	<hr/>
Increase in funds resulting from cash flows	547,358	199,526
Net funds at 1 July 1996	312,115	112,589
	<hr/>	<hr/>
Net funds at 30 June 1997	£859,473	£312,115
	<hr/>	<hr/>

Note C

	<u>1 July 1996</u>	<u>Cash flow</u>	<u>30 June 1997</u>
Analysis of net funds:			
Cash at bank	312,115	547,358	859,473
Debt due after one year	-	-	-
Debt due within one year	-	-	-
	<hr/>	<hr/>	<hr/>
Total	£ 312,115	£ 547,358	£ 859,473
	<hr/>	<hr/>	<hr/>

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of accounting

The 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 1996 underwriting account and one half of the 1997 underwriting account (1996 - one half of the 1995 underwriting account and one half of the 1996 underwriting account).

Profit Commission is accounted for on a received basis. 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 1996 year end but has been recognised in the year. 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 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 $\frac{1}{3}$ % 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.

2. Turnover and profit

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.

	<u>1997</u> £	<u>1996</u> £
Profit on ordinary activities before taxation is stated after charging and crediting the following:-		
Depreciation including profit on sale	66,118	48,146
Auditors' remuneration- audit	7,500	7,500
- other	4,970	150
Staff costs	2,454,633	2,774,106
Rental payments under operating leases		
- buildings	71,393	78,052
- motor vehicles	91,024	87,312
	<hr/>	<hr/>
	2,695,638	2,995,266
Other costs	336,674	239,440
Recharged to managed syndicate	(2,505,573)	(2,268,476)
	<hr/>	<hr/>
	£526,739	£966,230

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors' Remuneration

	<u>1997</u> £	<u>1996</u> £
Total directors' emoluments	£976,218	£1,364,186
	<hr/>	<hr/>
Highest paid director	£223,384	£338,504
	<hr/>	<hr/>

	<u>Number of directors</u>	
	<u>1997</u>	<u>1996</u>
Retirement benefits are accruing to the following number of directors under defined benefit schemes	6	6
	<hr/>	<hr/>

Directors and employees of the company who participate on syndicates managed by the company do not pay agency salaries or profit commission on those participations.

5. Taxation

	<u>1997</u> £	<u>1996</u> £
UK corporation tax on:		
Profit on ordinary activities		
at 32.5% (1996 33%)	170,935	242,813
Adjustment in respect of prior year	(1,462)	(822)
	<hr/>	<hr/>
	£169,473	£241,991
	<hr/>	<hr/>

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

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Dividend

	<u>1997</u>	<u>1996</u>
	£	£
Interim paid - £0.84p per share (1996 Nil)	272,000	-
Final recommended - Nil (1996 - £1.60p per share)	-	400,000
	<hr/>	<hr/>
	£272,000	£400,000
	<hr/>	<hr/>

7. Tangible fixed assets

	<u>Short leaseholds</u>	<u>Furniture motor vehicles & equipment</u>	<u>Total</u>
	£	£	£
Cost			
1 July 1996	40,357	275,799	316,156
Additions	247,951	13,761	261,712
Disposals	(40,357)	(27,600)	(67,957)
	<hr/>	<hr/>	<hr/>
30 June 1997	£247,951	£261,960	£509,911
	<hr/>	<hr/>	<hr/>
Depreciation			
1 July 1996	40,357	195,603	235,960
Charge for the year	24,795	45,024	69,819
Disposals	(40,357)	(10,450)	(50,807)
	<hr/>	<hr/>	<hr/>
30 June 1997	£24,795	£230,177	£254,972
	<hr/>	<hr/>	<hr/>
Net book amount			
30 June 1996	£ -	£80,196	£80,196
	<hr/>	<hr/>	<hr/>
30 June 1997	£223,156	£31,783	£254,939
	<hr/>	<hr/>	<hr/>

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Debtors

	<u>1997</u>	<u>1996</u>
	£	£
Amounts due from group companies	-	7,112
Other debtors	66,333	1,257,927
Prepayments and accrued income	5,694	9,180
	<hr/>	<hr/>
	£72,027	£1,274,219
	<hr/>	<hr/>

9. Creditors: amounts falling due within one year

	<u>1997</u>	<u>1996</u>
	£	£
Corporation tax	170,935	245,280
Other creditors and social security	5,498	52,593
Accruals and deferred income	69,616	531,354
Proposed dividend	272,000	400,000
Amounts due to group companies	256,606	110,000
	<hr/>	<hr/>
	£774,655	£1,339,227
	<hr/>	<hr/>

10. Share capital

	<u>Authorised</u>	<u>Issued</u>
	£	£
As at 1st July 1996:-		
250,000 ordinary shares of £1 each	250,000	250,000
Capitalisation of reserves	75,000	75,000
	<hr/>	<hr/>
As at 30th June 1997	£325,000	£325,000
	<hr/>	<hr/>

During the year 75,000 ordinary shares of £1 each were issued to the existing shareholders through the capitalisation of reserves. This increase in share capital was necessary to comply with the minimum share capital requirement for Lloyd's underwriting agents.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Profit and loss account

	<u>1997</u> £	<u>1996</u> £
At 1 July 1996	77,303	296
Retained profit/(loss) for the year	84,481	77,007
Capitalisation of reserves	(75,000)	-
	<hr/>	<hr/>
At 30 June 1997	<u>£86,784</u>	<u>£77,303</u>

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.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Pension commitments (continued)

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 £274,889 (1996 - £311,801), representing contributions payable by the company, was recharged in the appropriate proportion to the managed syndicate. There were no outstanding contributions at 30 June 1997.

13. Ultimate holding company

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

14. Contingent liabilities and financial commitments

The company entered into a leasehold tenancy agreement on 13 March 1997 in respect of 1 Aldgate.

The company was committed to make rental payments amounting in the aggregate to £694,294 in respect of the remaining 48 month period of the tenancy (1996 - £27,594 from 30 June 1996 to 6 May 1997).

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 1996 and 30 June 1997 were as follows:-

	As at 1 July 1996 Ordinary Shares of £1 each	As at 1 July 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Directors' interests (cont/d)

As at 30 June 1997:-

	"D" Ordinary Shares 50p each	Convertible Shares 50p each	Deferred Shares 50p each	First Preference Shares £1 each	Second Preference Shares 1 pence each	Share Options "D" Shares	Share Options Convertible Shares
A F Beazley	162,817	117,241	311,955	8,264	1,868,988	-	-
N H Furlonge	101,839	-	423,161	-	2,242,486	-	-
N P Maidment	11,266	55,941	2,793	-	314,973	27,500	27,500
J G Gray	8,418	61,582	-	-	378,260	35,000	35,000
J G B Rowell	30,127	73,000	36,873	-	643,518	35,000	35,000
A R Manners	3,367	9,369	15,264	-	182,684	14,000	14,000
J D Sargent	6,513	3,641	10,846	-	80,603	-	-
G P Blunden	2,171	884	3,945	-	27,572	-	-
T Sullivan	-	-	-	-	-	-	-
K. McHugh	-	-	-	-	-	-	-