

RURAL INSURANCE GROUP LIMITED

Report and Financial Statements  
for the year ended 31 December 2004



Company Registration No. 2207611

## CONTENTS

	Page
General Information	
Directors' Report	1
Independent Auditors' Report	3
Profit and Loss Account	5
Balance Sheet	6
Notes to the Financial Statements	7

## **General Information**

### **Directors**

The directors at the date of this report were as follows:

Mr L D Harvey

Mr J Davey

### **Secretary**

The company secretary is Mr A N M McMahon.

### **Principal Bankers**

Royal Bank of Scotland Plc

5-10 Great Tower Street

London EC3P 3HX

Barclays Bank Plc

54 Lombard Street

London EC3V 9EX

### **Auditors**

Mazars LLP

24 Bevis Marks

London EC3A 7NR

### **Tax Advisors**

Rawlinson & Hunter

Eagle House, 110 Jermyn Street

London SW1Y 6RH

### **Principal Lawyers**

Taylor Wessing Carmelite

50 Victoria Embankment

Blackfriars

London EC4Y 0DX

### **Registered Office**

10 King William Street

London EC4N 7TW

**Company Registration Number**

2207611

**Parent Company**

The immediate parent company is PBS Holdings Limited, and the ultimate parent company is Primary Group Limited.

## Directors' Report

The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2004.

## Results and dividend

Turnover was £2,114,811 (2003: £1,158,298) and the profit attributable to shareholders for the company for the year ended 31 December 2004 was £426,968 (2003: £14,335) after a tax charge of £187,475 (2003: £1,620).

## Review of developments

### Principal activities

The company's principal activities are that of an insurance underwriting agency and intermediary, specialising in agricultural and rural insurance risks.

All members of the Primary Group operate in a devolved structure designed to motivate the management teams of each business to act with ownership, accountability and entrepreneurial spirit. Decisions are measured through the reporting and control process in what is known as our 'Trust and Verify' framework. *As a consequence, businesses within the Primary Group may trade together where it is in their commercial interest and this decision is for each management team to make.* This means that the Primary Group's businesses will, through the normal course of business, trade together on an independent arm's length basis. These transactions have not therefore been disclosed in the related party note.

### Future developments

The directors aim to enhance existing relationships and to develop new business opportunities with other like-minded professional organisations around the world.

### Tangible fixed assets

Movements in the tangible fixed assets held by the company are shown in Note 9.

### Charitable donations

During the year the company made charitable donations of £135 (2003: £126).

### Directors and directors' interests

The directors who currently hold or held office during the year were as follows:

Mr L D Harvey	
Mr J Davey	(Appointed on 1 October 2004)
Mr J Hodes	(Appointed on 5 May 2004, Resigned 12 April 2005)
Mrs T E Keill	(Resigned 4 May 2004)
Mr M H King	(Resigned 7 October 2004)

**Directors' Report (continued)****Directors and directors' interests (continued)**

The directors who currently hold or held office during the year and their interests in the issued share capital of the company are as follows:

	Ordinary shares of £1 each	
	At 31 December 2004	At 1 January 2004
Mr L D Harvey	100	100

The directors' interests in the share capital of other group companies are shown in the directors' report of the parent company's financial statements.

**Auditors**

Mazars LLP succeeded Mazars as the independent auditors to the company on 1 September 2004. Resolutions to dispense with the requirement to reappointment auditors annually and to hold an Annual General Meeting was passed on 3 July 1998.

Approved by the board of directors and signed on behalf of the board.



Mr L D Harvey  
Director

22 September 2005

**Independent Auditors' Report to the Members of Rural Insurance Group Limited**

We have audited the financial statements for the year ended 31 December 2004, which comprise the Profit and Loss Account, the Balance Sheet and related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

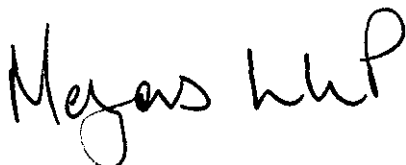
**Basis of opinion**

We conducted our audit in accordance with United Kingdom 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 as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Mazars LLP', is written above the printed name of the firm.

Mazars LLP  
Chartered Accountants and Registered Auditors  
24 Bevis Marks  
London  
EC3A 7NR

22 September 2005



**Profit and Loss Account  
for the year ended 31 December 2004**

	Note	2004 £	2003 £
Turnover	3	2,114,811	1,158,298
Management and other operating charges		(1,529,899)	(1,150,966)
Other operating income	4	<u>12,486</u>	<u>-</u>
<b>Operating profit</b>	5	597,398	7,332
Interest receivable		17,546	8,623
Interest payable	7	<u>(501)</u>	<u>-</u>
<b>Profit on ordinary activities before taxation</b>		614,443	15,955
Tax on profit on ordinary activities	8	<u>(187,475)</u>	<u>(1,620)</u>
<b>Profit on ordinary activities after taxation</b>	17	<u>426,968</u>	<u>14,335</u>
<b>Retained profit for the financial period</b>	18	<u>426,968</u>	<u>14,335</u>

All activities derive from continuing operations. There are no recognised gains or losses, other than those reflected in the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.

The notes to the accounts on pages 7 to 14 form an integral part of these financial statements.

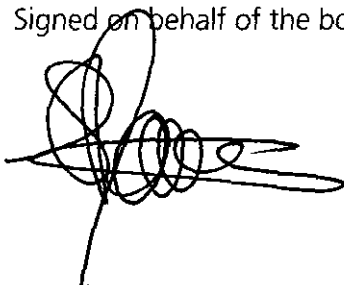
Balance Sheet  
as at 31 December 2004

	Note	2004 £	2003 £
<b>Fixed assets</b>			
Tangible assets	9	318,932	221,262
Investments	10	<u>1,000</u>	<u>1,000</u>
		319,932	222,262
<b>Current assets</b>			
Debtors	11	3,835,923	2,918,879
Cash at bank and in hand	12	<u>1,042,625</u>	<u>556,790</u>
		4,878,548	3,475,669
<b>Creditors: (amounts falling due within one year)</b>	13	<u>(4,345,403)</u>	<u>(3,271,822)</u>
<b>Net current assets</b>		533,145	203,847
<b>Total assets less current liabilities</b>		853,077	426,109
<b>Creditors: (amounts falling due after more than one year)</b>	14	<u>(224,408)</u>	<u>(224,408)</u>
		<u>628,669</u>	<u>201,701</u>
<b>Capital and reserves</b>			
Called up share capital	16	1,000	1,000
Profit and loss account	17	<u>627,669</u>	<u>200,701</u>
	18	<u>628,669</u>	<u>201,701</u>

The notes to the accounts on pages 7 to 14 form an integral part of these financial statements.

The board of directors approved these financial statements on 22 September 2005.

Signed on behalf of the board of directors.



Mr J Davey  
Director

22 September 2005

## Notes to the financial statements for the year ended 31 December 2004

### 1. Statement of directors' responsibilities

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; 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 that 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. 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.

### 2. Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

#### Basis of accounting

The financial statements are prepared under the historical cost convention of accounting.

#### Turnover

Turnover comprises brokerage and net commissions that are recognised when placement services are completed.

#### Depreciation

Tangible fixed assets, including assets held under finance leases and hire purchase contracts, are written off on a straight line basis over their estimated useful lives (Note 9).

#### Deferred taxation

The charge for taxation is based on the profits for the year charged at the current rates of tax. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed out by the balance sheet date except as otherwise required by FRS 19. Deferred tax assets are recognised to the extent that the directors consider these amounts receivable.

Notes to the financial statements  
for the year ended 31 December 2004

2. Accounting policies (continued)

**Insurance debtors and creditors**

In the normal course of insurance broking and underwriting, settlement is required to be made with certain markets, market settlement bureaux or insurance intermediaries on the basis of the net settlement due to or from that market, bureau or intermediary in question, rather than the amounts due to or from the individual parties which it represents. Insurance debtors and creditors reflect the gross value of premiums and claims and together with related cash balances, have been included within the assets and liabilities of the company in accordance with current market practice.

Insurance debtors and creditors are reported in accordance with the requirements of Financial Reporting Standard No. 5 'Reporting the Substance of Transactions' (FRS 5). The standard precludes assets and liabilities being offset unless net settlement is legally enforceable and as a result the insurance broking debtors and creditors have been shown as the gross amounts due in respect of each contract, instead of the net amount due to or from clients and underwriters.

**Investments**

Investments held as fixed assets are stated at cost less provisions for any permanent diminution in value.

**Cash flow statement**

The company is a wholly owned subsidiary of Primary Group (UK) Limited, which prepares a consolidated cash flow statement. The company has therefore elected to make use of the exemption provided in Financial Reporting Standard No. 1 ("Cash Flow Statements") not to produce a cash flow statement.

**Operating leases**

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

**Pensions**

The group operates non-contributory defined contribution grouped personal pension plans covering the majority of permanent employees where subsidiaries have elected to participate. The assets of the plans are held separately from those of the group in independently administered funds for individual members of staff. The plans are funded by contributions that are charged to the profit and loss account as incurred in accordance with the employment contract of each director or employee.

**Notes to the financial statements  
for the year ended 31 December 2004**

**3. Turnover**

Turnover for the year originated and was derived from activities within the United Kingdom.

**4. Other operating income**

	2004 £	2003 £
Override on finance agreements	9,986	-
Rental income	2,500	-
	<u>12,486</u>	<u>-</u>

**5. Operating profit**

	2004 £	2003 £
The operating profit for the year was arrived at after charging / (crediting):		
Accountancy fees - auditors' remuneration	10,982	12,000
Depreciation of owned assets	100,268	53,713
(Profit) / loss on disposal on tangible fixed assets	(665)	360
Administrative and support fees payable to group undertakings	175,164	82,734
Operating lease rentals – rent	42,166	-
	<u>42,166</u>	<u>-</u>

**6. Information regarding directors and employees**

The aggregate emoluments of the directors of the company for the year ended 31 December 2004, were as follows:

	2004 £	2003 £
Emoluments – including performance related bonus	72,000	69,600
Contributions to money purchase pension schemes	12,250	10,937
	<u>84,250</u>	<u>80,537</u>
Total emoluments	<u>84,250</u>	<u>80,537</u>

Notes to the Financial Accounts  
For the year ended 31 December 2004

6. Information regarding directors and employees (continued)

	2004 £	2003 £
Staff costs		
Wages and salaries	676,350	554,727
Social security costs	72,642	60,728
Other pension costs	66,203	55,118
	<u>815,195</u>	<u>670,573</u>
	2004 No.	2003 No.
The average number of persons including executive directors employed by the company during the year was:	<u>29</u>	<u>26</u>
The number of directors for the benefit of whom the company made contributions to money purchase pension schemes during the year was:	<u>1</u>	<u>1</u>

7. Interest payable

	2004 £	2003 £
Bank interest	<u>501</u>	<u>-</u>

8. Taxation

(a) Analysis of charge in year	2004 £	2003 £
Based on profit for the year at 30% (2003: 30%)	187,215	-
Group relief	-	1,840
Adjustment in respect of previous periods	<u>260</u>	<u>(220)</u>
Tax payable as at 31 December (note 8(b))	<u>187,475</u>	<u>1,620</u>

Notes to the Financial Accounts  
For the year ended 31 December 2004

8. Taxation (continued)

(b) Factors affecting tax charge for the year	2004 £	2003 £
The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%) The differences are explained below:		
Profit on ordinary activities before tax	<u>614,443</u>	<u>15,955</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	184,333	4,786
Effects of:		
Depreciation on non qualifying assets	306	-
Expenses not deductible for tax purposes	4,922	1,832
Capital allowance for year in excess of depreciation	(2,346)	(2,978)
Inter group loans written back not taxable	-	(1,800)
	<u>187,215</u>	<u>1,840</u>
Adjustment to tax in respect of previous periods	<u>260</u>	<u>(220)</u>
Current tax charge for the year (note 8(a))	<u>187,475</u>	<u>1,620</u>

9. Tangible fixed assets

	Leasehold Improvements £	Fixtures, Fittings & Equipment £	Motor vehicles £	Total £
<b>Cost</b>				
At 1 January 2004	-	250,222	80,740	330,962
Additions during the year	69,263	111,402	26,634	207,299
Disposals during the year	<u>-</u>	<u>(31,556)</u>	<u>(30,820)</u>	<u>(62,376)</u>
At 31 December 2004	<u>69,263</u>	<u>330,068</u>	<u>76,554</u>	<u>475,885</u>
<b>Depreciation</b>				
At 1 January 2004	-	80,770	28,930	109,700
Charge for the year	6,189	74,308	19,771	100,268
Disposals during the year	<u>-</u>	<u>(31,271)</u>	<u>(21,744)</u>	<u>(53,015)</u>
At 31 December 2004	<u>6,189</u>	<u>123,807</u>	<u>26,957</u>	<u>156,953</u>
<b>Net book value</b>				
At 31 December 2004	<u>63,074</u>	<u>206,261</u>	<u>49,597</u>	<u>318,932</u>
At 31 December 2003	<u>-</u>	<u>169,452</u>	<u>51,810</u>	<u>221,262</u>
Depreciation rate	20%	20/25%	25%	

Notes to the Financial Accounts  
For the year ended 31 December 2004

10. Fixed asset investments

Cost	Unlisted £
At 1 January 2004 and 31 December 2004	<u>1,000</u>

The unlisted investments above include a 15% interest in the issued ordinary share capital of Rosette Foods Limited a company registered in England and Wales.

11. Debtors

	2004 £	2003 £
Insurance debtors	3,722,905	2,856,380
Amounts due from group undertakings	-	2,219
Other debtors	-	1,071
Prepayments and accrued income	<u>113,018</u>	<u>59,209</u>
	<u>3,835,923</u>	<u>2,918,879</u>

12. Cash at bank and in hand

Included in cash at bank and in hand is £1,031,360 (2003: £537,733) held in designated client and underwriter accounts. These balances are used to settle claims to policyholders, pay premiums to underwriters and commissions and other income due to group undertakings.

13. Creditors: amounts falling due within one year

	2004 £	2003 £
Insurance creditors	3,262,372	3,160,036
Amounts owed to group undertakings	789,596	-
Corporation tax	187,215	-
Profit commission owed to a group undertaking	-	21,270
Other taxes and social security	969	13
Trade creditors	86,889	72,304
Other creditors	264	-
Accruals and deferred income	<u>18,098</u>	<u>18,199</u>
	<u>4,345,403</u>	<u>3,271,822</u>

14. Creditors: amounts falling due after more than one year

	2004 £	2003 £
Profit commission owed to a group undertaking	<u>224,408</u>	<u>224,408</u>



## Notes to the Financial Accounts

For the year ended 31 December 2004

## 15. Commitments under operating leases

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as set out below:

	2004 Land & Buildings £	2003 Land & Buildings £
Operating leases which expire: Within 2 to 5 years	53,500	17,392

## 16. Called up share capital

	2004 £	2003 £
Authorised: 1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, issued & fully paid: 1,000 Ordinary shares of £1 each	1,000	1,000

## 17. Statement of movements on reserves

	2004 £	2003 £
Profit and loss account		
At the start of the year	200,701	186,366
Retained profit for the financial year	426,968	14,335
At the end of year	627,669	200,701

## 18. Reconciliation of movements in shareholders' funds

	2004 £	2003 £
Profit for the financial year	426,968	14,335
Net additions to shareholders' funds	426,968	14,335
Opening shareholders' funds	201,701	187,366
Closing shareholders' funds	628,669	201,701

Notes to the Financial Accounts  
For the year ended 31 December 2004

19. *Pension commitments*

The group operates non-contributory defined contribution grouped personal pension plans. The assets of the plans are held separately from those of the group in independently administered funds. The pension cost charge represents contributions payable by the company to the plans and the amount contributed during the period to 31 December 2004 was £66,203 (2003: £55,118).

20. *Related party transactions*

As permitted under FRS 8, transactions between group companies which are owned and controlled by more than 90% of the voting rights have not been disclosed.

21. *Ultimate holding company*

The ultimate holding company as at 31 December 2004 is Primary Group Limited, a company incorporated in Bermuda. In the opinion of the directors, the ultimate controllers at this date are the trustees of NUSA Trust and JIWO Trust, both trust companies being incorporated in the Cayman Islands.