

RURAL INSURANCE GROUP LIMITED
Company Registration No. 2207611
REPORT AND FINANCIAL STATEMENTS
30 SEPTEMBER 1999



Rural

Insurance Group

REPORT AND FINANCIAL STATEMENTS

1999

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Rural

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DIRECTORS

The directors in office as at 30 September 1999 and at the date of this report were as follows:

L.D. Harvey
P.W.H. James
M.H. King

COMPANY SECRETARY

On 8 October 1999, Mr B.F. Williams resigned as company secretary and was replaced by Miss C.L Jenkins.

BANKERS

Barclays Bank PLC
54 Lombard Street
London EC3V 9EX

Royal Bank of Scotland
62/63 Threadneedle Street
London EC2R 8LA

AUDITORS

Mazars Neville Russell
24 Bevis Marks
London EC3A 7NR

TAX ADVISORS

Rawlinson & Hunter
Eagle House
110 Jermyn Street
London SW1Y 6RH

LEGAL ADVISORS

Taylor Joynson Garrett
Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0DX

REGISTERED OFFICE

5 Lloyd's Avenue
London EC3N 3AE

PARENT COMPANY

The ultimate parent company is Primary Group Limited

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 30 September 1999.

REVIEW OF THE BUSINESS

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

The company continues to provide a value added service for the benefit of policyholders and a country-wide network of select insurance brokers producing predominantly agricultural and rural insurance enquiries. The sales effort has further shown good growth with turnover up 48%. Brand management and product delivery also please as the company continually improves its service standards relative to key competitors. The board recognises the efforts of all our staff in achieving the progress enjoyed and is grateful for their dedication to the company, our clients and policyholders.

Rural benefits as part of the Primary group of companies which has turnover in excess of £17 million, premium throughput in excess of £200 million per annum and over 200 staff with offices in the United Kingdom and overseas.

RESULTS AND DIVIDENDS

The company made a profit taxation of £345,841 (1998: loss £44,568). The directors do not recommend the payment of a dividend in respect of the year ended 30 September 1999.

FUTURE ACTIVITIES

The company's principal future activities are expected to remain as an insurance underwriting agency and intermediary specialising in agricultural and rural insurance risks.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who currently hold and held office during the year are as follows:

	£1 Ordinary Shares	
	30 September 1999	1 October 1998
Executive Director		
L.D. Harvey	-	-
Non-Executive Directors		
P.W.H. James	-	-
M.H. King	1	1

No director at 1 October 1998 or 30 September 1999 had an interest in the share capital of the company other than Mr King who held one £1 Ordinary Share at 1 October 1998 and 30 September 1999, the share being held on trust for the parent company. Messrs James and King are directors of the ultimate holding company Primary Group Limited, and the beneficial interests held by them are shown in the directors' report on that company's financial statements.

DIRECTORS' REPORT (CONTINUED)**PARENT COMPANY**

At 30 September 1999, the ultimate parent company is Primary Group Limited, a company registered in England and Wales.

AUDITORS

Mazars Neville Russell have signified their willingness to continue in office.

Approved by the board of Directors
and signed on behalf of the Board



M H King
Director
8 March 2000

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
RURAL INSURANCE GROUP LIMITED**

We have audited the financial statements on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set in Note 2 to the accounts.

Respective responsibilities of directors and auditors

As described in Note 1 to 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 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 30 September 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



MAZARS NEVILLE RUSSELL

Chartered Accountants and Registered Auditors
24 Bevis Marks
LONDON
EC3A 7NR

8 March 2000

PROFIT AND LOSS ACCOUNT For the year ended 30 September 1999

	Note	1999 £	1998 £
TURNOVER	2	718,618	485,039
Management and other operating charges		(737,235)	(540,837)
OPERATING LOSS	4	(18,617)	(55,798)
Interest receivable		16,660	11,230
Other income	5	347,798	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		345,841	(44,568)
Taxation on profit/(loss) on ordinary activities	6	(2,560)	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		343,281	(44,568)
MOVEMENT ON RETAINED EARNINGS			
Balance on retained earnings brought forward		(540,069)	(495,501)
Retained profit/(loss) for the financial year		343,281	(44,568)
BALANCE ON RETAINED EARNINGS AT 30 SEPTEMBER		(196,788)	(540,069)

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

The notes to the accounts on pages 6 to 11 form an integral part of these financial statements.

BALANCE SHEET 30 September 1999

	Note	1999 £	1998 £
FIXED ASSETS			
Tangible assets	7	72,346	49,628
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors	8	1,315,755	999,692
Cash at bank and in hand		381,498	540,578
		<hr/>	<hr/>
		1,697,253	1,540,270
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(1,665,387)	(2,128,967)
		<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)		31,866	(588,697)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		104,212	(539,069)
		<hr/>	<hr/>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	9	(300,000)	-
		<hr/>	<hr/>
		(195,788)	(539,069)
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	10	1,000	1,000
Profit and loss account		(196,788)	(540,069)
		<hr/>	<hr/>
SHAREHOLDERS' FUNDS - EQUITY	11	(195,788)	(539,069)
		<hr/>	<hr/>

The notes to the accounts on pages 6 to 11 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 8 March 2000.

Signed on behalf of the Board of Directors

P.W.H. James
Director

NOTES TO THE ACCOUNTS**Year ended 30 September 1999****1. 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 judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- 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. 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 emanates entirely from the United Kingdom and comprises brokerage and commissions, which are recognised when the client is billed.

Cash Flow Statement

The company is a greater than 90% owned subsidiary of Primary Group 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.

Pension costs

The company's directors and employees participate in a non-contributory defined contribution grouped personal pension plan established within the group. Contributions are charged to the profit and loss account as incurred in accordance with the employment contract of each director or employee.

NOTES TO THE ACCOUNTS
Year ended 30 September 1999**2. ACCOUNTING POLICIES (Continued)****Depreciation**

Tangible fixed assets are written off by equal annual instalments over their estimated useful lives (Note 7).

Operating leases

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

Trade Debtors and Creditors

In order to comply with the requirements of Financial Reporting Standard No.5 'Reporting the Substance of Transactions' (FRS 5), assets and liabilities cannot be offset unless net settlement is legally enforceable, and as a result the insurance broking debtors and creditors have been shown as the gross due in respect of each contract, instead of the net amount due to or from clients and underwriters.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The aggregate emoluments of the directors of Rural Insurance Group Limited receivable from the Company for the year ended 30 September 1999 were:

	1999 £	1998 £
Emoluments	44,950	84,572
Pension contributions into money purchase schemes	6,708	5,050
	<hr/>	<hr/>
	51,658	89,622
	<hr/>	<hr/>

The emoluments of the highest paid director were as follows:

	1999 £	1998 £
Emoluments	44,950	45,483
Pension contributions into money purchase schemes	6,708	5,050
	<hr/>	<hr/>
	51,658	50,533
	<hr/>	<hr/>

The number of directors for the benefit of whom the company made contributions to a money purchase pension scheme during the period was:

No.	No.
<hr/>	<hr/>
1	1
<hr/>	<hr/>

NOTES TO THE ACCOUNTS Year ended 30 September 1999

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (Continued)

	1999	1998
Staff costs:	£	£
Wages and salaries	424,730	318,565
Social security costs	33,913	30,525
Other pension costs	30,313	21,078
	<u>488,956</u>	<u>370,168</u>

Included in the above staff costs is appropriate management charges from the group management company.

The average number of full time employees of the company during the year was 14 (1998: 12).

The directors Messrs James and King received no remuneration from the company.

4. OPERATING LOSS

The operating loss for the year is arrived at after charging:	1999	1998
	£	£
Depreciation	31,301	27,369
Auditors' remuneration	6,000	6,000
Management charge payable to fellow group undertaking	48,000	28,875
Operating lease payments	<u>11,793</u>	<u>8,004</u>

5. OTHER INCOME

	1999	1998
	£	£
Inter-company loan write-off	<u>347,798</u>	<u>-</u>

The inter-company loan write-off represents amounts borrowed from Gyro Insurance Management Limited ("Gyro") to fund start-up costs of the company. Under an agreement to dispose of Gyro's interest in the company to Primary Group Limited at a valuation approved by independent valuation experts, Gyro agreed to write-off a proportion of its start-up loan and to assign the balance of inter-company indebtedness to Primary Group Limited for fair value.

6. TAXATION

	1999	1998
	£	£
UK corporation tax at 20.5% (1998: at 21%) based on profits for the year.	2,935	-
Tax relief provided by fellow group companies	<u>(375)</u>	<u>-</u>
	<u>2,560</u>	<u>-</u>

NOTES TO THE ACCOUNTS Year ended 30 September 1999

7. TANGIBLE FIXED ASSETS

	Motor Vehicles £	Furniture & Equipment £	Total £
Cost:			
At 1 October 1998	40,255	86,530	126,785
Additions in the year	22,094	43,139	65,233
	<hr/>	<hr/>	<hr/>
Disposals in the year	62,349 (27,900)	129,669 (16,231)	192,018 (44,131)
	<hr/>	<hr/>	<hr/>
At 30 September 1999	<u>34,449</u>	<u>113,438</u>	<u>147,887</u>
Accumulated depreciation:			
At 1 October 1998	25,757	51,400	77,157
Charge for the year	8,613	22,688	31,301
Depreciation on disposals	(22,669)	(10,248)	(32,917)
	<hr/>	<hr/>	<hr/>
As at 30 September 1999	<u>11,701</u>	<u>63,840</u>	<u>75,541</u>
Net book value:			
At 30 September 1999	<u>22,748</u>	<u>49,598</u>	<u>72,346</u>
At 1 October 1998	<u>14,498</u>	<u>35,130</u>	<u>49,628</u>
Estimated useful lives	4 Years	5 years	

8. DEBTORS

	1999 £	1998 £
Insurance debtors	1,296,323	984,691
Other debtors and prepayments	19,432	15,001
	<hr/>	<hr/>
	<u>1,315,755</u>	<u>999,692</u>

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NOTES TO THE ACCOUNTS Year ended 30 September 1999

9. CREDITORS

Amounts falling due within one year

	1999 £	1998 £
Insurance creditors	1,408,138	1,383,825
Amounts owed to parent undertaking	26,517	676,917
Amounts owed to fellow group undertakings	177,938	28,875
Other taxation and social security costs	22,360	15,587
Accruals and deferred income	27,874	23,763
Corporation tax	2,560	-
	<u>1,665,387</u>	<u>2,128,967</u>

Amounts falling due after more than one year

	1999 £	1998 £
Amounts owed to immediate parent undertaking	<u>300,000</u>	<u>-</u>

The amounts owed to immediate parent undertaking are not subject to any interest charges nor is there any fixed date for repayment. Primary Group Limited has indicated that repayment in the foreseeable future will only be required to the extent that Rural Insurance Group Limited can meet the payments out of continuing cashflow generated.

10. CALLED UP SHARE CAPITAL

	1999 £	1998 £
1,000 authorised, allotted and fully paid Ordinary Shares of £1 each	<u>1,000</u>	<u>1,000</u>

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £	1998 £
Profit/(loss) for the financial year	343,281	(44,568)
Opening shareholders' deficit	(539,069)	(494,501)
	<u> </u>	<u> </u>
Closing shareholders' deficit	<u>(195,788)</u>	<u>(539,069)</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 1999**12. COMMITMENTS UNDER OPERATING LEASES**

At 30 September 1999 the company was committed to making the following annual payments under non-cancellable operating leases in the year to 30 September:

	Land and Buildings 1999 £	Land and Buildings 1998 £
Amounts payable:		
Within 2 to 5 years	<u>17,392</u>	<u>-</u>

On 19 October 1998, the company entered into a 5 year lease on new office accommodation at Sceptre House, Hornbeam Park, Harrogate.

13. PENSION COMMITMENTS

The group operates a defined contribution grouped personal pension plan. The assets of the scheme are held separately from those of the group in independently administered funds. The pension cost charge represents contributions payable by the group to the fund and amounted to £30,313 (1998: £21,078).

14. RELATED PARTY TRANSACTIONS

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

During the year ended 30 September 1998, the company made a disposal at market value of a motor vehicle to a connected party of Mr Harvey for the amount of £4,600 of which £1,200 is still outstanding to the company at 30 September 1999.

15. ULTIMATE PARENT UNDERTAKING

The ultimate holding company is Primary Group Limited. In the opinion of the directors, the ultimate controller at 30 September 1999 is JIWO Trust, a trust company incorporated in the Cayman Islands.

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DETAILED PROFIT & LOSS ACCOUNT Year ended 30 September 1999

	1999 £	1998 £
Income		
Brokerage	718,618	485,039
Interest	16,660	11,230
	<hr/>	<hr/>
	735,278	496,269
	<hr/>	<hr/>
Expenses		
Accommodation costs	20,969	13,297
Advertising & promotions	3,459	3,508
Audit, accountancy & taxation	7,150	500
Bank charges & interest	938	77
Computer costs	25,396	8,278
Communication costs	30,791	21,143
Consultancy fees	-	7,482
Depreciation	31,301	27,369
Entertaining	8,028	8,865
Insurance	3,145	2,474
Legal & professional fees	29,641	689
Loss on disposal of fixed assets	5,215	38
Management fees	48,000	28,875
Motor expenses	20,912	24,702
Newspapers & publications	1,633	707
Printing and stationery	21,926	18,615
Release of bad debt provision	(7,635)	-
Salaries and related costs	442,057	342,668
Sundry & miscellaneous	7,198	2,713
Travel	11,370	16,026
VAT irrecoverable	25,741	12,811
	<hr/>	<hr/>
	737,235	540,837
	<hr/>	<hr/>
Loss before tax and exceptional income	(1,957)	(44,568)
Other income	347,798	-
Corporation tax	(2,560)	-
	<hr/>	<hr/>
Profit/(loss) for year after taxation	343,281	(44,568)
	<hr/>	<hr/>