

RURAL INSURANCE GROUP LIMITED

Report and Financial Statements  
for the year ended 31 December 2003



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 J Hodes	Mr M H King
Mr L D Harvey	Mrs T E Keill

### Secretary

The company secretary is Mr A N M McMahon

### Principal Bankers

The Royal Bank of Scotland plc	Barclays Bank plc
62/63 Threadneedle Street	54 Lombard Street
London EC2R 8LA	London EC3V 9EX

### Auditors

Mazars  
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

5<sup>th</sup> Floor  
80 Leadenhall Street  
London EC3A 3HA

### Company Registration Number

2207611

### Parent Company

The immediate parent company is Primary Group (UK) 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 2003.

## Results and dividend

Turnover and other income was £1,158,298 (2002: £909,859) and the profit attributable to shareholders for the company for the year ended 31 December 2003 was £14,335 (2002: £85,783) after a tax charge (2002 credit) of £1,620 (2002: £11,693). The directors do not recommend the payment of a dividend for the year ended 31 December 2003 (2002: £Nil).

## 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 7.

## Charitable donations

During the year the company made charitable donations of £126.48 (2002: £110).

## Directors and directors' interests

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

Mr L D Harvey	
Mr M H King	
Mr J Hodes	
Mrs T E Keill	(Resigned 04/05/2004)
Mr J B Bibby	(Resigned 14/4/2003)

## Directors' Report (continued)

## Directors and directors' interests (continued)

The directors who currently hold or held office during the year and their interests on 1 January 2003 and 31 December 2003 in the share capital of the company are:

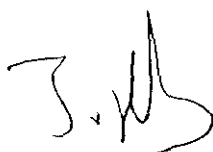
	£1 Ordinary shares	
	At 31 December 2003	At 1 January 2003
Mr L D Harvey	100	100

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 have signified their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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



J Hodes  
Director

11 June 2004

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

We have audited the financial statements for the year ended 31 December 2003 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.

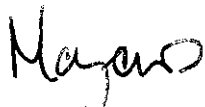
### **Basis of opinion**

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

11 June 2004

Profit and Loss Account  
for the year ended 31 December 2003

	Note	2003 £	2002 £
Turnover	3	1,158,298	909,859
Management and other operating charges		<u>(1,150,966)</u>	<u>(1,021,382)</u>
Operating profit / (loss)	4	7,332	(111,523)
Interest receivable		<u>8,623</u>	<u>14,047</u>
Profit / (loss) on ordinary activities before taxation		15,955	(97,476)
Tax on profit / (loss) on ordinary activities	6	<u>(1,620)</u>	<u>11,693</u>
Retained Profit / (loss) for the financial period	13	<u>14,335</u>	<u>(85,783)</u>

All activities derive from continuing operations. There are no recognised gains or losses, other than those reflected in the profit / (loss) 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.



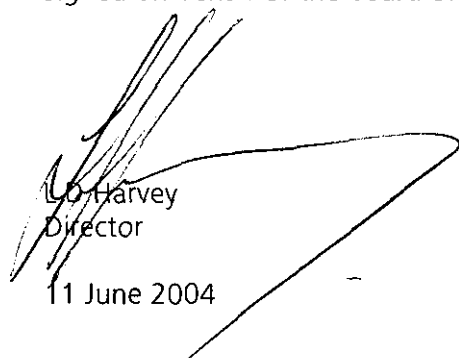
**Balance Sheet**  
as at 31 December 2003

	Note	2003 £	2002 £
<b>Fixed assets</b>			
Tangible assets	7	221,262	73,205
Investments	7	1,000	400
		<u>222,262</u>	<u>73,605</u>
<b>Current assets</b>			
Debtors	8	2,918,879	2,043,632
Cash at bank and in hand	9	556,790	416,538
		<u>3,475,669</u>	<u>2,460,170</u>
<b>Creditors: (amounts falling due within one year)</b>	10	<u>(3,271,822)</u>	<u>(2,346,409)</u>
<b>Net current assets</b>		<u>203,847</u>	<u>113,761</u>
<b>Total assets less current liabilities</b>		426,109	187,366
<b>Provisions for liabilities and charges</b>	11	<u>(224,408)</u>	<u>-</u>
		<u>201,701</u>	<u>187,366</u>
<b>Capital and reserves</b>			
Called up share capital	12	1,000	1,000
Profit and loss account	13	<u>200,701</u>	<u>186,366</u>
	14	<u>201,701</u>	<u>187,366</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 11 June 2004.

Signed on behalf of the board of directors.

  
L. Harvey  
Director  
11 June 2004

Notes to the financial statements  
for the year ended 31 December 2003

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 year. 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 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 the 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 7).

**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 2003

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.

3. Turnover

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

Notes to the financial statements  
for the year ended 31 December 2003

4. Operating profit / (loss)

	2003 £	2002 £
The operating profit / (loss) which originated in the United Kingdom for the year was arrived at after charging:		
Accountancy fees - auditors' remuneration	12,000	16,249
Administrative and support fees payable to group undertakings	82,734	745,608
Depreciation of owned assets	53,713	20,166
Loss on disposal of fixed assets	360	1,158
	<u>          </u>	<u>          </u>

5. Information regarding directors and employees

The aggregate emoluments of the directors of the company for the year ended 31 December 2003, were as follows:

	2003 £	2002 £
Emoluments – including performance related bonus	69,600	69,233
Contributions to money purchase pension schemes	<u>10,937</u>	<u>9,596</u>
Total emoluments	<u>80,357</u>	<u>78,829</u>

	2003 £	2002 £
Staff costs		
Wages and salaries	554,727	458,755
Social security costs	60,728	45,835
Other pension costs	<u>55,118</u>	<u>46,313</u>
	<u>670,573</u>	<u>550,903</u>

Notes to the financial statements  
for the year ended 31 December 2003

5. Information regarding directors and employees (continued)

	2003 No.	2002 No.
The average number of persons including executive directors employed by the company during the year was:	26	22
The number of directors for the benefit of whom the company made contributions to money purchase pension schemes during the year was:	1	1

6. Taxation

(a) Analysis of charge in year	2003 £	2002 £
Based on profit / (loss) for the year at 30% (2002: 30%)		
Group relief credit claimed for the year	1,840	-
Adjustment in respect of previous periods	(220)	(11,693)
Tax payable as at 31 December (note 6(b))	1,620	(11,693)
(b) Factors affecting tax charge for the year	2003 £	2002 £
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%)		
The differences are explained below:		
Profit / (loss) on ordinary activities before tax	15,955	(97,476)
Profit / (loss) on ordinary activities multiplied by standard rate		
of corporation tax in the UK of 30% (2002: 30%)	4,786	(29,243)
Effects of:		
Expenses not deductible for tax purposes	1,832	347
Capital allowances in excess of depreciation	(2,978)	(1,165)
Group relief surrendered without payment	-	30,061
Inter group loans written back not taxable	(1,800)	-
Utilisation of tax losses	-	-
Adjustment to tax in respect of prior periods	1,840 (220)	- (11,693)
Current tax charge / (credit) for the year (note 6(a))	1,620	(11,693)

Notes to the financial statements  
for the year ended 31 December 2003

7a. Tangible fixed assets

	Furniture, fittings & equipment £	Motor vehicles £	Total £
<b>Cost</b>			
At 1 January 2003	78,368	77,792	156,160
Transfers from group company	6,108	12,979	19,087
Additions in the period	165,746	40,611	206,357
Disposals during the year	-	(50,642)	(50,642)
At 31 December 2003	250,222	80,740	330,962
<b>Depreciation</b>			
At 1 January 2003	52,335	30,620	82,955
Transfers from group company	1,092	3,244	4,336
Charge for the year	27,343	26,370	53,713
Depreciation on disposals during the year	-	(31,304)	(31,304)
At 31 December 2003	80,770	28,930	109,700
<b>Net book value</b>			
At 31 December 2003	169,452	51,810	221,262
At 31 December 2002	26,033	47,172	73,205
Depreciation rate	20/25%	20/25%	

7b. Fixed asset investments

Cost	Unlisted £
At 1 January 2003	400
Additions	600
At 31 December 2003	1000

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.

8. Debtors

	2003 £	2002 £
Insurance debtors	2,856,380	1,941,265
Amounts due from group undertakings	2,219	100,944
Other debtors	1,071	1,423
Prepayments and accrued income	59,209	-
	2,918,879	2,043,632

All amounts are due within 12 months of the balance sheet date.

Notes to the financial statements  
for the year ended 31 December 2003

9. Cash at bank and in hand

Included in cash at bank and in hand is £537,733 (2002: £416,538) 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.

10. Creditors: amounts falling due within one year

	2003 £	2002 £
Bank Overdraft	-	2,921
Insurance creditors	3,160,036	2,274,513
Amounts owed to group undertakings	21,270	-
Trade creditors	72,304	
Corporation tax	-	1,500
Other taxes and social security	13	153
Accruals and deferred income	18,199	67,322
	<u>3,271,822</u>	<u>2,346,409</u>

11. Provisions for liabilities and charges

	Profit commission £	Total £
At 1 January 2003	-	-
Charge for the year	224,408	224,408
At 31 December 2003	<u>224,408</u>	<u>224,408</u>

The estimated provision for profit commission is in relation to commissions repayable to Primary Insurance Company Limited, a fellow subsidiary of the ultimate holding company, Primary Group Limited, based on the expected performance of the Rural agricultural programme for the 2002 underwriting year of account to close. The directors are of the opinion that this liability will not be settled for at least another 12 months, in keeping with the binding authority agreement.

12. Called up share capital

	2003 £	2002 £
Authorised:		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, issued & fully paid:		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Notes to the financial statements  
for the year ended 31 December 2003

13. Statement of movements on reserves

	2003 £	2002 £
At the start of the year	186,366	272,149
Profit / (loss) for the financial year	<u>14,335</u>	<u>(85,783)</u>
At 31 December	<u>200,701</u>	<u>186,366</u>

14. Reconciliation of movements in shareholders' funds

	2003 £	2002 £
At the start of the year	187,366	273,149
Retained Profit / (loss) for the financial year	<u>14,335</u>	<u>(85,783)</u>
At 31 December	<u>201,701</u>	<u>187,366</u>

15. 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 year to 31 December 2003 was £55,118 (2002:£46,313).

16. Financial commitments

At 31 December 2003 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December:

	Land & Buildings 2003 £	Land & Buildings 2002 £
Operating leases which expire:		
Within two to five years	<u>17,392</u>	<u>17,392</u>

17. 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.



Notes to the financial statements  
for the year ended 31 December 2003

18. Ultimate holding company

The immediate parent company as at 31 December 2003 is Primary Group UK Limited, a company incorporated in the United Kingdom.

The ultimate holding company as at 31 December 2003 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.