

THE EXCELSIOR INSURANCE COMPANY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 1999

REGISTERED NUMBER: 2396184



DIRECTORS AND OFFICERS

DIRECTORS

Mr G J Parrott (Chairman)
Mr J M Bryan (Managing)

SECRETARY

Mrs H J Tautz

AUDITORS

KPMG Audit Plc

BANKERS

Clydesdale Bank Plc

MANAGERS

Eastgate Insurance Services Limited

REGISTERED OFFICE

166 High Holborn
LONDON
WC1V 6TT

**DIRECTORS' REPORT FOR THE YEAR ENDED
30 SEPTEMBER 1999**

The Directors present their Report together with the audited financial statements of the Company for the year ended 30 September 1999. Comparative amounts are for the year ended 30 September 1998.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company is the run-off of its general insurance business. The Company underwrote a proportion of the insurance risks of Forte Limited and its subsidiary companies. The Company requested that its authorisation to write new insurance business be withdrawn under Section 11 of the Insurance Companies Act 1982. This was effected on 10 July 1998.

The results for the period are set out on pages 6 and 7. No new or renewal business has been underwritten in the year ended 30 September 1999.

RESULTS, DIVIDENDS AND TRANSFERS TO RESERVES

The pre tax profits for the period are £400,901 (1998: £718,614). The profit after taxation amounting to £258,312 (1998: £797,571) has been transferred to reserves.

The Directors do not recommend the payment of a dividend (1998: £Nil).

DIRECTORS

The Directors of the Company who served throughout the year, are shown on page 1.

DIRECTORS' INTERESTS

None of the Directors had a direct interest in the issued share capital of the Company.

The interests of the Directors in the issued share capital of Granada Group PLC were as follows:

	At 30 September 1999	At 30 September 1998 (as restated)
J M Bryan	9,574	4,731

The following Directors held share options under Granada's Executive and Savings-Related Share Option Schemes:

	At 30 September 1998 (as restated)	Granted during the year	Exercised during the year	At 30 September 1999
J M Bryan	18,014	20,675	-	38,689

Mr G J Parrott is also a Director of Granada Group PLC and his share interests are shown in that Company's Report and Accounts.

No Director is or was materially interested in any contract of significance subsisting during or at the end of the financial year in relation to the Company's business.

On 5 July 1999 there was a 2 for 1 subdivision of Granada Group PLC shares. The figures included above have been adjusted accordingly.

DIRECTORS' REPORT FOR THE YEAR ENDED (CONTINUED)
30 SEPTEMBER 1999

ELECTIVE RESOLUTIONS

The Company has passed Elective Resolutions to dispense with the laying of the Annual Report and Accounts before the Company in General Meeting, the appointment of auditors annually and the holding of Annual General Meetings, pursuant to Sections 252, 386 and 366A respectively of the Companies Act 1985.

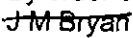
CREDITOR PAYMENT POLICY

The Company is in run-off and is administered by third parties, principally Eastgate Insurance Services (EIS) and Royal & Sun Alliance (RSA). All creditors are paid within the terms of settlement provided by the supplier.

YEAR 2000

The Company recognises that there are risks and uncertainties surrounding the Year 2000 issue. The Company is principally reliant on the systems of external suppliers; Eastgate Insurance Services Limited (EIS) and Royal & Sun Alliance (RSA), and on the systems of its parent Granada Group PLC.

The Company has sought an assessment of the impact of Year 2000 on EIS, RSA and Granada, and believes that compliance will be achieved within an appropriate timeframe. It does not expect to incur any additional costs.

By order of the Board

Director


H J Tautz
Secretary

LONDON

DATE: 10 January 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year, which comply with the provisions of the Companies Act 1985. 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, subject to any material departures disclosed and explained in the financial statements; 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 which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the 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 to prevent and detect fraud and other irregularities.

**REPORT OF THE AUDITOR, KPMG AUDIT PLC, TO THE MEMBERS OF
THE EXCELSIOR INSURANCE COMPANY LIMITED**

We have audited the financial statements on pages 6 to 14.

Respective responsibilities of directors and auditors

As described on page 4 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 as at 30 September 1999 and of its profit for the 12 months then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
and Registered Auditor
Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF24 0TE

14 January 2000

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 1999**

Technical Account - General Business

	<u>Notes</u>	<u>12 months to 30.09.99 £</u>	<u>12 months to 30.09.98 £</u>
Earned premiums, net of reinsurance		<u>-</u>	<u>-</u>
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		(855,919)	(1,085,557)
- reinsurers' share		<u>-</u>	<u>-</u>
		(855,919)	(1,085,557)
Change in the provision for claims			
- gross amount		907,247	1,355,752
- reinsurers' share		<u>(5,224)</u>	<u>(54,788)</u>
		902,023	1,300,964
Claims incurred, net of reinsurance	2	<u>46,104</u>	<u>215,407</u>
Operating expenses - administrative expenses	2	<u>(79,559)</u>	<u>(73,650)</u>
Balance on the technical account for general business	2	<u>(33,455)</u>	<u>141,757</u>

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 SEPTEMBER 1999**

Non-Technical Account

	<u>Notes</u>	<u>12 months to 30.09.99 £</u>	<u>12 months to 30.09.98 £</u>
Balance on the general business technical account		(33,455)	141,757
Investment income	4	434,356	576,857
Profit on ordinary activities before tax		<u>400,901</u>	<u>718,614</u>
Tax on profit on ordinary activities	7	(142,589)	78,957
Profit for the financial year being retained profit for the period		<u>258,312</u>	<u>797,571</u>

Statement of recognised gains and losses

The Company had no recognised gains or losses during either period, other than those reflected in the above Profit and Loss Account.

Note of historical cost profits and losses

There is no material difference between the results for the current year and the previous year as described in the profit and loss account and the results on an unmodified historical cost basis. Accordingly, a note of the historical cost profits and losses for the year is not given.

**BALANCE SHEET
AS AT 30 SEPTEMBER 1999**


	<u>Notes</u>	<u>As at 30.09.99 £</u>	<u>As at 30.09.98 £</u>
ASSETS			
Investments			
Deposits with credit institutions		<u>6,000,000</u>	<u>7,505,934</u>
Reinsurers' share of technical provisions			
Claims outstanding		<u>105,631</u>	<u>110,855</u>
Debtors			
Debtors arising out of direct insurance operations			
- intermediaries		165,000	176,657
Amounts owed by parent undertaking		-	101,000
Deferred tax asset	9	<u>129,660</u>	<u>124,402</u>
		<u>294,660</u>	<u>402,059</u>
Other assets			
Cash at bank and in hand		<u>551,811</u>	<u>263,100</u>
Prepayments and accrued income			
Accrued interest		<u>49,996</u>	<u>125,019</u>
Total Assets		<u><u>7,002,098</u></u>	<u><u>8,406,967</u></u>

The notes on pages 10 to 14 form part of these financial statements

**BALANCE SHEET
AS AT 30 SEPTEMBER 1999**

	<u>Notes</u>	<u>As at 30.09.99 £</u>	<u>As at 30.09.98 £</u>
LIABILITIES			
Capital and reserves			
Called up share capital	8	3,500,000	3,500,000
Profit and loss account	11	<u>1,563,133</u>	<u>1,304,821</u>
Shareholders funds - equity interests		<u>5,063,133</u>	<u>4,804,821</u>
Technical provisions			
Claims outstanding	2	<u>1,213,516</u>	<u>2,120,763</u>
Creditors			
Creditors arising out of direct insurance operations		359,126	103,269
Other creditors including tax and social security	10	<u>354,323</u>	<u>1,363,514</u>
		<u>713,449</u>	<u>1,466,783</u>
Accruals and deferred income		<u>12,000</u>	<u>14,600</u>
Total Liabilities		<u><u>7,002,098</u></u>	<u><u>8,406,967</u></u>

APPROVED ON BEHALF OF THE BOARD ON 10 January 2000 BY


J M BRYAN
DIRECTOR

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1999

1 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 and Schedule 9A to the Companies Act 1985, which cover the disclosures applicable to insurance companies.

The financial statements have been prepared in accordance with applicable accounting standards.

(b) Basis of Technical Accounting

Full provision is made for all claims incurred and outstanding, including claims incurred but not reported (IBNR), at the balance sheet date. Paid claims include collection expenses and loss adjusters' fees.

(c) Claims

Claims outstanding represents the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date including a provision for claims incurred but not yet reported less any amounts paid in respect of these liabilities. Claims outstanding is reduced by anticipated salvage and other recoveries.

(d) Foreign Currency Conversion

Income and expenditure in the principal foreign currencies is translated at the rates ruling at the balance sheet date. Other foreign currency income and expenditure is translated at the rate ruling on the date the transaction took place.

(e) Investment Income

Investment income represents interest receivable for the period and is credited to the Profit and Loss account on an accruals basis.

(f) Deferred Tax

Deferred tax is provided only where a liability or asset is expected to arise in the foreseeable future.

(g) Cash Flow Statements

As more than 90% of the voting rights in the Company are controlled within the group headed by Granada Group PLC, whose consolidated financial statements in which the Company is consolidated are publicly available, under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cashflow statement.

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1999 (CONTINUED)

2 SEGMENTAL ANALYSIS

Gross claims incurred and operating expenses

	<u>Gross claims incurred</u>		<u>Operating expenses</u>	
	<u>12 months</u>	<u>12 months</u>	<u>12 months</u>	<u>12 months</u>
	<u>to 30.09.99</u>	<u>to 30.09.98</u>	<u>to 30.09.99</u>	<u>to 30.09.98</u>
	£	£	£	£
Direct insurance				
Accident and health	1,890	-	-	-
Motor	(6,359)	(6,841)	(1,916)	(1,009)
Fire and other damage to property	2,000	(3,955)	-	(133)
Third party liability	53,797	280,991	(77,643)	(72,508)
Miscellaneous	-	-	-	-
	<u>51,328</u>	<u>270,195</u>	<u>(79,559)</u>	<u>(73,650)</u>

Other segmental information

	<u>Reinsurance balance</u>		<u>Balance on the technical account</u>		<u>Gross technical provisions</u>	
	<u>12 months</u>	<u>12 months</u>	<u>12 months</u>	<u>12 months</u>	<u>As at</u>	<u>As at</u>
	<u>to 30.09.99</u>	<u>to 30.09.98</u>	<u>to 30.09.99</u>	<u>to 30.09.98</u>	<u>30.09.99</u>	<u>30.09.98</u>
	£	£	£	£	£	£
Direct insurance						
Accident and health	-	-	1,890	-	-	1,890
Motor	-	-	(8,275)	(7,850)	51,000	65,250
Fire and other damage to property	-	-	2,000	(4,088)	2,905	4,905
Third party liability	(5,224)	(54,788)	(29,070)	153,695	1,159,611	2,048,718
Miscellaneous	-	-	-	-	-	-
	<u>(5,224)</u>	<u>(54,788)</u>	<u>(33,455)</u>	<u>141,757</u>	<u>1,213,516</u>	<u>2,120,763</u>

3 RELEASE OF OVER PROVISION OF PRIOR YEAR'S OUTSTANDING CLAIMS

	<u>12 months</u>	<u>12 months</u>
	<u>to 30.09.99</u>	<u>to 30.09.98</u>
	£	£
Direct insurance		
Accident and health	(1,890)	-
Motor		
- third party liability	6,359	6,841
- other	-	-
Fire and other damage to property	(2,000)	3,955
Third party liability	(48,573)	(226,203)
Miscellaneous	-	-
Release of over provision of prior year's outstanding claims	<u>(46,104)</u>	<u>(215,407)</u>

In accordance with the provisions of Financial Reporting Standard 3 and the ABI Guidance on Accounting for Insurance Business, the Directors have considered the need for a provision for the future costs of running off the business. No provision has been made as the future costs are expected to be immaterial in relation to the expected future investment income of the Company.

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1999 (CONTINUED)

4 INVESTMENT RETURN SUMMARY

	12 months to 30.09.99 £	12 months to 30.09.98 £
Income from other investments:		
Short term deposits		
Total investment return	<u>434,356</u>	<u>576,857</u>

5 AUDITORS' REMUNERATION

The remuneration of the auditor for audit services during the year amounted to £12,000 (1998: £14,600).

6 STAFF COSTS

The Company employed no staff during the year ended 30 September 1999 (1998: Nil). As in the prior year, none of the Company's Directors received any remuneration in respect of their services to the Company.

7 TAXATION

	12 months to 30.09.99 £	12 months to 30.09.98 £
Current year:		
- UK Corporation tax charge at 31% (1998: 31%)	(131,432)	(204,369)
- Deferred taxation (note 9)	5,258	(24,963)
	<u>(126,174)</u>	<u>(229,332)</u>
Adjustment relating to earlier years:		
- UK Corporation Tax	(16,415)	308,289
	<u>(142,589)</u>	<u>78,957</u>

8 SHARE CAPITAL

	As at 30.09.99 £	As at 30.09.98 £
Authorised: Ordinary Shares of £1 each	<u>4,000,000</u>	<u>4,000,000</u>
Issued, allotted, called-up and fully paid: Ordinary Shares of £1 each	<u>3,500,000</u>	<u>3,500,000</u>

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1999 (CONTINUED)

9 DEFERRED TAXATION

The full potential deferred tax asset at 31% (1998: 31%) is as follows:

	As at 30.09.99		As at 30.09.98	
	Provided £	Not Provided £	Provided £	Not Provided £
Short term timing differences	129,660	-	124,402	-

The short term timing difference as at 30 September 1999 reflects the different tax and accounting treatment of certain claims provisions within underwriting creditors.

10 CREDITORS

Other creditors including tax and social security falling due within one year:

	As at 30.09.99 £	As at 30.09.98 £
Corporation tax	131,433	277,076
Amounts owed to parent undertaking	222,890	1,086,438
	<u>354,323</u>	<u>1,363,514</u>

11 PROFIT AND LOSS ACCOUNT

	£
Balance at 1 October 1998	1,304,821
Retained profit for the period	258,312
	<u>1,563,133</u>
Balance at 30 September 1999	

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1999 (CONTINUED)

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	As at 30.09.99 £	As at 30.09.98 £
Profit for the period	258,312	797,571
Net additions to shareholders' funds	258,312	797,571
Opening shareholders' funds	4,804,821	4,007,250
Closing shareholders' funds	5,063,133	4,804,821

13 RELATED PARTY TRANSACTIONS

The ultimate controlling party is Granada Group PLC.

As 90% or more of the Company's voting rights are controlled within the group headed by Granada Group PLC, and the Company is included within the publicly available consolidated financial statements of Granada Group PLC, the Company is exempt from the requirement of Financial Reporting Standard 8 to disclose transactions with those undertakings that are part of the group or investees of that group qualifying as related parties.

14 ULTIMATE PARENT COMPANY

The Company's ultimate parent company is Granada Group PLC, a company registered in England.

Copies of the group financial statements may be obtained from:

Stornoway House
13 Cleveland Row
London
SW1A 1GG