Morgan Law Limited

Financial statements

For the year ended 31 December 2005

Grant Thornton

Company No. 2696420

Company information

Company registration number	2696420
Registered office	Hyde Park House Crown Street IPSWICH Suffolk IP1 3BJ
Directors	P A Smith K F Watson
Secretary	J E Miller
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors Crown House Crown Street IPSWICH Suffolk IP1 3HS

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Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 December 2005.

Principal activities and business review
The principal activity of the company during the year was the provision of insurance services.

The directors are satisfied with the trading results of the company and anticipate continued profitable trading in the current financial year.

Results and dividends
The profit for the year, after taxation, amounted to £172,267. Particulars of dividends paid and proposed are detailed in note 9 to the financial statements.

Financial risk management objectives and policies
The company uses various financial instruments which include cash, trade debtors and trade creditors. The main purpose of these is to finance the company's operations and the main risks arising are credit risk and liquidity risk.

In order to manage credit risk, credit checks are undertaken on new customers and aged debtors listings are regularly reviewed.

The company seeks to ensure that at all times, sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It also ensures that, at all times, FSA requirements in respect of client money are met.

Directors
The directors who served the company during the year were as follows:

P A Smith
K F Watson

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company.

Directors' responsibilities
The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

United Kingdom 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, 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

K F Watson
Director

4 October 2006

Grant Thornton

Report of the independent auditor to the members of Morgan Law Limited

We have audited the financial statements of Morgan Law Limited for the year ended 31 December 2005 which comprise the principal accounting policies, profit and loss account, balance sheet, cash flow statement, and notes 1 to 29. These financial statements have been prepared under 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 auditor's 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 auditor

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and the information given in the Report of the Directors is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

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

Report of the independent auditor to the members of Morgan Law Limited (continued)

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

IPSWICH

5 October 2006

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

Changes in accounting policies

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standards:

FRS 21 'Events after the Balance Sheet date (IAS 10)'

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements. Previously, proposed equity dividends were recorded as liabilities at the balance sheet date.

This change in accounting policy has resulted in a prior year adjustment for the company. For year ended 31 December 2004, the change in accounting policy has resulted in a net increase in retained profit for the year of £60,000. The balance sheet at 31 December 2004 has been restated to reflect the de-recognition of a liability for proposed equity dividends of £60,000. For year ended 31 December 2005, the change in accounting policy has resulted in no change in retained profit for the year, as all dividends were paid over before the year end.

Turnover

Turnover represents brokerage and fees in respect of premiums earned from clients net of related taxes in the United Kingdom. Revenue is recognised at the later of the effective date of the policy and the date that the policy is accepted by the customer.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Computer Equipment	-	4 years
Fixtures & Fittings	-	4 years
Motor Vehicles	-	4 years

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Insurance debtors and creditors

The company acts as an agent in broking insurance risks for its clients. Notwithstanding its legal relationship with clients and insurance companies, the company has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance broking business as assets and liabilities of the company itself.

Profit and loss account

	Note	2005 £	2004 *(restated)* £
Turnover	1	**2,849,590**	3,147,523
Cost of sales		**147,574**	67,044
Gross profit		**2,702,016**	3,080,479
Other operating charges	2	**2,556,161**	3,051,476
Other operating income	3	**(10,200)**	(10,228)
Operating profit	4	**156,055**	39,231
Interest receivable		**128,533**	126,566
Interest payable and similar charges	7	**(8,055)**	(7,708)
Profit on ordinary activities before taxation		**276,533**	158,089
Tax on profit on ordinary activities	8	**104,266**	73,692
Profit for the financial year	21	**172,267**	84,397

All of the activities of the company are classed as continuing.

There are no other gains or losses for the year other than those stated above.

Balance sheet

	Note	2005 £	2004 (restated) £
Fixed assets			
Tangible assets	11	**482,995**	426,455
Investments	12	**1**	1
		482,996	426,456
Current assets			
Debtors	13	**1,244,348**	1,540,768
Cash at bank		**2,448,015**	3,742,571
		3,692,363	5,283,339
Creditors: amounts falling due within one year	14	**3,732,074**	4,831,051
Net current (liabilities)/assets		**(39,711)**	452,288
Total assets less current liabilities		**443,285**	878,744
Creditors: amounts falling due after more than one year	15	**30,394**	18,120
		412,891	860,624
Capital and reserves			
Called-up equity share capital	20	**1,000**	1,000
Profit and loss account	21	**411,891**	859,624
Shareholders' funds	22	**412,891**	860,624

These financial statements were approved by the directors on 4 October 2006 and are signed on their behalf by:

K F Watson
Director

Cash flow statement

	Note	2005 £	2004 £
Net cash (outflow)/inflow from operating activities	23	**(549,358)**	960,244
Returns on investments and servicing of finance			
Interest received		**128,533**	126,566
Interest paid		**(790)**	(661)
Interest element of finance leases and hire purchase		**(7,265)**	(7,047)
Net cash inflow from returns on investments and servicing of finance		**120,478**	118,858
Taxation		**(73,692)**	(81,972)
Capital expenditure			
Payments to acquire tangible fixed assets		**(337,700)**	(303,257)
Receipts from sale of fixed assets		**238,000**	153,500
Net cash outflow from capital expenditure		**(99,700)**	(149,757)
Equity dividends paid		**(620,000)**	(213,332)
Financing			
Capital element of finance leases and hire purchase		**(72,284)**	(88,469)
Net cash outflow from financing		**(72,284)**	(88,469)
(Decrease)/increase in cash	24	**(1,294,556)**	545,572

Notes to the financial statements

Turnover

Turnover is wholly attributable to the principal activity.

An analysis of turnover is given below:

	2005	2004
	£	£
United Kingdom	**2,849,590**	3,147,523

2 Other operating charges

	2005	2004
	£	£
Administrative expenses	**2,556,161**	3,051,476

3 Other operating income

	2005	2004
	£	£
Rent receivable	**10,200**	10,228

4 Operating profit

Operating profit is stated after charging/(crediting):

	2005	2004
	£	£
Depreciation of owned fixed assets	**105,891**	89,727
Depreciation of assets held under finance leases and hire purchase agreements	**60,600**	66,429
Profit on disposal of fixed assets	**(18,741)**	(1,149)
Auditor's remuneration:		
Audit fees	**13,500**	12,400
Accountancy fees	**1,600**	1,650
Operating lease costs:		
Other	**51,000**	51,140

5 Directors and employees

The average number of staff employed by the company during the financial year amounted to:

	2005	2004
	No	No
Number of administrative staff	**34**	38

The aggregate payroll costs of the above were:

	2005	2004
	£	£
Wages and salaries	**1,459,466**	1,952,731
Social security costs	**197,688**	247,947
Other pension costs	**139,491**	95,176
	1,796,645	2,295,854

6 Directors

Remuneration in respect of directors was as follows:

	2005	2004
	£	£
Emoluments receivable	**873,085**	1,318,780
Value of company pension contributions to money purchase schemes	**127,750**	85,800
	1,000,835	1,404,580

Emoluments of highest paid director:

	2005	2004
	£	£
Total emoluments (excluding pension contributions)	**444,265**	749,568
Value of company pension contributions to money purchase schemes	**63,875**	42,900
	508,140	792,468

The number of directors who accrued benefits under company pension schemes was as follows:

	2005	2004
	No	No
Money purchase schemes	**2**	2

7 Interest payable and similar charges

	2005	2004
	£	£
Interest payable on bank borrowing	**790**	661
Finance charges	**7,265**	7,047
	8,055	7,708

8 Taxation on ordinary activities

(a) Analysis of charge in the year

	2005	2004
	£	£
Current tax:		
UK Corporation tax based on the results for the year	**104,266**	73,692
Total current tax	**104,266**	73,692

(b) *Factors affecting current tax charge*

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2004 - 30%).

	2005	2004
	£	£
Profit on ordinary activities before taxation	**276,533**	158,089
Profit on ordinary activities by rate of tax	**82,960**	47,427
Expenses not deductible for tax purposes	**16,552**	20,540
Depreciation in excess of capital allowances	**4,597**	18,427
Marginal relief	**-**	(12,702)
Over provision in prior year	**(2)**	-
Other	**159**	-
Total current tax (note 8(a))	**104,266**	73,692

9 Dividends

Dividends on shares classed as equity

	2005	2004 *(restated)*
	£	£
Paid during the year		
Equity dividends on ordinary shares	**620,000**	–

10 Prior year adjustment

As disclosed within the principal accounting policies, the company adopted Financial Reporting Standard 21 during the year, the effect of which is detailed below.

In the accounts for the year ended 31 December 2004, final dividends of £60,000 were shown as a charge to the profit and loss account for the year. Under FRS 21, the 2004 proposed final dividend is no longer deducted from the profit for that year. This gives rise to the prior year adjustment shown in note 22, increasing shareholders' funds at 31 December 2004 by £60,000.

Also, dividends are no longer disclosed on the face of the profit and loss account, but treated as an appropriation of profit.

11 Tangible fixed assets

	Computer Equipment	Fixtures & Fittings	Motor Vehicles	Total
	£	£	£	£
Cost				
At 1 January 2005	181,814	18,762	570,972	771,548
Additions	9,285	1,121	431,884	442,290
Disposals	–	–	(380,853)	(380,853)
At 31 December 2005	191,099	19,883	622,003	832,985
Depreciation				
At 1 January 2005	134,514	13,537	197,042	345,093
Charge for the year	21,736	2,425	142,330	166,491
On disposals	–	–	(161,594)	(161,594)
At 31 December 2005	156,250	15,962	177,778	349,990
Net book value				
At 31 December 2005	**34,849**	**3,921**	**444,225**	**482,995**
At 31 December 2004	47,300	5,225	373,930	426,455

Included within the net book value of £482,995 is £281,677 (2004 - £233,477) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £60,600 (2004 - £66,429).

12 Investments

	Investments
	£
Cost	
At 1 January 2005 and 31 December 2005	**3,185**
Amounts written off	
At 1 January 2005 and 31 December 2005	**3,184**
Net book value	
At 31 December 2005	**1**
At 31 December 2004	1

13 Debtors

	2005	2004
	£	£
Insurance debtors	**1,073,872**	1,383,321
Amounts owed by group undertakings	**80,000**	67,000
Prepayments and accrued income	**90,476**	90,447
	1,244,348	1,540,768

The company has signed formal Loan Subordination agreements in respect of £80,000 (2004: 67,000) owed by group undertakings. Repayment of this loan is therefore expected after more than one year.

14 Creditors: amounts falling due within one year

	2005	2004 *(restated)*
	£	£
Insurance creditors	**2,326,811**	3,695,663
Amounts owed to group undertakings	**44,700**	40,338
Corporation tax	**104,268**	73,694
Other taxation and social security	**37,250**	141,554
Amounts due under finance leases and hire purchase agreements	**69,962**	49,930
Directors current accounts	**162,415**	65,088
Accruals and deferred income	**986,668**	764,784
	3,732,074	4,831,051

15 Creditors: amounts falling due after more than one year

	2005	2004
	£	£
Amounts due under finance leases and hire purchase agreements	**30,394**	18,120

Amounts due under hire purchase agreements are secured on the assets to which they relate.

16 Commitments under finance leases and hire purchase agreements

Future commitments under finance leases and hire purchase agreements are as follows:

	2005	2004
	£	£
Amounts payable within 1 year	69,962	49,930
Amounts payable between 1 and 2 years	30,394	18,120
	100,356	68,050

17 Pensions

The company operates a defined contribution pension scheme for the benefit of the directors and staff. The assets of the scheme are administered by trustees in funds independent from those of the company.

The pension cost charge for the year was £139,491 (2004- £95,176).

18 Leasing commitments

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below.

	Land & buildings	
	2005	2004
	£	£
Operating leases which expire:		
Within 2 to 5 years	51,000	51,000

19 Related party transactions

At 31 December 2005, the company had the following balances with related parties:

	2005	2004
	£	£
Debtors:		
Morgan Law (Financial Services) Limited	**80,000**	67,000
Creditors:		
Morgan Law (Holdings) Limited	**(493)**	(493)
Morgan Law (Financial Services) Limited	**(44,207)**	(39,845)
P A Smith	**(18,207)**	(39,236)
K F Watson	**(75,771)**	(25,852)

During the year, the following transactions took place with related parties:

Expenses amounting to £16,377 (2004 - £20,774) were paid by Morgan Law Limited on behalf of Morgan Law (Financial Services) Limited, its fellow subsidiary.

Expenses amounting to £47,739 (2004 - £63,573) were paid by Morgan Law (Financial Services) Limited on behalf of Morgan Law Limited.

The company charged Morgan Law (Financial Services) Limited a management charge of £40,000 (2004 - £500) during the year.

20 Share capital

Authorised share capital:

	2005	2004
	£	£
10,000 Ordinary shares of £1 each	**10,000**	10,000

Allotted, called up and fully paid:

	2005		2004	
	No	£	No	£
Ordinary shares of £1 each	**1,000**	**1,000**	1,000	1,000
Equity shares				
Ordinary shares of £1 each	**1,000**	**1,000**	1,000	1,000

21 Profit and loss account

	2005	2004 (restated)
	£	£
Balance brought forward as previously reported	**799,624**	775,227
Prior year adjustment (see note 10)	**60,000**	–
Balance brought forward restated	**859,624**	775,227
Profit for the financial year	**172,267**	84,397
Equity dividends paid (FRS 25)	**(620,000)**	–
Balance carried forward	**411,891**	859,624

22 Reconciliation of movements in shareholders' funds

	2005	2004 (restated)
	£	£
Profit for the financial year	**172,267**	84,397
Equity dividends paid (FRS 25)	**(620,000)**	–
Net (reduction)/addition to shareholders' funds	**(447,733)**	84,397
Opening shareholders' funds	**800,624**	776,227
Prior year adjustment (see note 10)	**60,000**	–
Closing shareholders' funds	**412,891**	860,624

23 Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2005	2004
	£	£
Operating profit	**156,055**	39,231
Depreciation	**166,491**	156,156
Profit on disposal of fixed assets	**(18,741)**	(1,149)
Decrease in debtors	**296,420**	224,403
(Decrease)/increase in creditors	**(1,149,583)**	541,603
Net cash (outflow)/inflow from operating activities	**(549,358)**	960,244

24 Reconciliation of net cash flow to movement in net funds

	2005	2004
	£	£
(Decrease)/increase in cash in the period	**(1,294,556)**	545,572
Cash outflow in respect of finance leases and hire purchase	**72,284**	88,469
Change in net funds resulting from cash flows	**(1,222,272)**	634,041
New finance leases	**(104,590)**	(59,893)
Movement in net funds in the period	**(1,326,862)**	574,148
Net funds at 1 January 2005	**3,674,521**	3,100,373
Net funds at 31 December 2005	**2,347,659**	3,674,521

25 Analysis of changes in net funds

	At 1 Jan 2005	Cash flows	Other changes	At 31 Dec 2005
	£	£	£	£
Net cash:				
Cash in hand and at bank	3,742,571	(1,294,556)	-	2,448,015
Debt:				
Finance leases and hire purchase agreements	(68,050)	72,284	(104,590)	(100,356)
Net funds	3,674,521	(1,222,272)	(104,590)	2,347,659

26 Non-cash transactions

During the year, the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £104,590 (2004 - £59,893).

27 Contingencies

The directors have confirmed that there were no contingent liabilities which should be disclosed at 31 December 2005 or 31 December 2004.

28 Capital commitments

The directors have confirmed that there were no capital commitments at 31 December 2005 or 31 December 2004.

29 Ultimate parent company

The directors consider that the parent company and controlling related party is Morgan Law (Holdings) Limited due to its shareholding in the company.