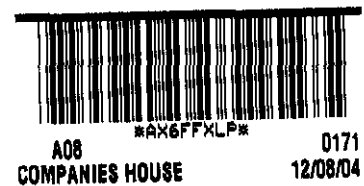


Morgan Law Limited

Financial statements

For the year ended 31 December 2003

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
Auditors	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 2003.

Principal activities and business review

The principal activity of the company during the year was the provision of insurance services.

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

Results and dividends

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have recommended the following dividends:

	2003	2002
	£	£
Proposed dividends on ordinary shares	<u>213,332</u>	<u>213,332</u>

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

Company law in the United Kingdom 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 at the end of the year and of the profit or loss for the year then ended. 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.

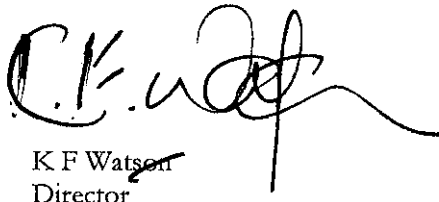
The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

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

20.7.04.

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

We have audited the financial statements of Morgan Law Limited for the year ended 31 December 2003 which comprise the principal accounting policies, profit and loss account, balance sheet, cash flow statement and notes 1 to 27. 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 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

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards 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 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 other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 affairs of the company as at 31 December 2003 and of its result 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

21 July 2004

Principal accounting policies

Basis of accounting

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

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.

Amortisation

Amortisation 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:

Goodwill	-	10 years
----------	---	----------

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.

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	2003 £	2002 £
Turnover	1	3,215,733	2,715,951
Cost of sales		(7,858)	34,495
Gross profit		3,223,591	2,681,456
Other operating charges	2	3,034,142	2,716,258
Other operating income	3	(11,370)	(7,845)
Operating profit/(loss)	4	200,819	(26,957)
Interest receivable		105,518	88,938
Interest payable	7	(13,901)	(11,756)
Profit on ordinary activities before taxation		292,436	50,225
Tax on profit on ordinary activities	8	89,755	(104,344)
Profit on ordinary activities after taxation		202,681	154,569
Dividends	9	213,332	213,332
Loss for the financial year		(10,651)	(58,763)
Balance brought forward		785,878	844,641
Balance carried forward		<u>775,227</u>	<u>785,878</u>

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

The company has no recognised gains or losses other than the results for the year as set out above.

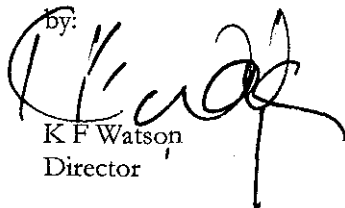
The accompanying accounting policies and notes form part of these financial statements.

Balance sheet

	Note	2003 £	2002 £
Fixed assets			
Tangible assets	10	371,812	445,073
Investments	11	1	1
		<u>371,813</u>	<u>445,074</u>
Current assets			
Debtors	12	1,765,171	2,261,945
Cash at bank		3,196,999	3,452,398
		<u>4,962,170</u>	<u>5,714,343</u>
Creditors: amounts falling due within one year	13	<u>4,537,445</u>	<u>5,334,384</u>
Net current assets		<u>424,725</u>	<u>379,959</u>
Total assets less current liabilities		<u>796,538</u>	<u>825,033</u>
Creditors: amounts falling due after more than one year	14	<u>20,311</u>	<u>38,155</u>
		<u>776,227</u>	<u>786,878</u>
Capital and reserves			
Called-up equity share capital	19	1,000	1,000
Profit and loss account		<u>775,227</u>	<u>785,878</u>
Shareholders' funds	20	<u>776,227</u>	<u>786,878</u>

These financial statements were approved by the directors on 20.7.04 and are signed on their behalf

by:


K F Watson
Director

Cash flow statement

	Note	2003 £	2002 £
Net cash (outflow)/inflow from operating activities	21	(32,007)	1,186,740
Returns on investments and servicing of finance			
Interest received		105,518	88,938
Interest paid		(2,461)	(1,976)
Interest element of finance leases and hire purchase		(11,440)	(9,780)
Net cash inflow from returns on investments and servicing of finance		91,617	77,182
Taxation		(36,637)	(301,609)
Capital expenditure			
Payments to acquire tangible fixed assets		(46,571)	(200,354)
Receipts from sale of fixed assets		232,730	153,950
Net cash inflow/(outflow) from capital expenditure		186,159	(46,404)
Equity dividends paid		(213,332)	(160,000)
Financing			
Capital element of finance leases and hire purchase		(251,199)	(196,137)
Net cash outflow from financing		(251,199)	(196,137)
(Decrease)/increase in cash	22	(255,399)	559,772

Notes to the financial statements

1 Turnover

Turnover is wholly attributable to the principal activity of the company.

An analysis of turnover is given below:

	2003	2002
	£	£
United Kingdom	<u>3,215,733</u>	<u>2,715,951</u>

2 Other operating income and charges

	2003	2002
	£	£
Administrative expenses	<u>3,034,142</u>	<u>2,716,258</u>
	<u>3,034,142</u>	<u>2,716,258</u>

3 Other operating income

	2003	2002
	£	£
Rent receivable	<u>11,370</u>	<u>7,845</u>

4 Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2003	2002
	£	£
Amortisation	—	7,575
Depreciation of owned fixed assets	70,016	120,208
Depreciation of assets held under finance leases and hire purchase agreements	67,818	27,282
Profit on disposal of fixed assets	(9,847)	(17,928)
Auditors' remuneration:		
Audit fees	18,800	19,500
Accountancy fees	2,500	2,000
Operating lease costs:		
Land and buildings	<u>56,848</u>	<u>39,226</u>

5 Directors and employees

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

	2003	2002
	No	No
Number of administrative staff	<u>35</u>	<u>37</u>

The aggregate payroll costs of the above were:

	2003	2002
	£	£
Wages and salaries	2,070,860	1,660,593
Social security costs	258,647	206,800
Other pension costs	84,293	82,963
	<u>2,413,800</u>	<u>1,950,356</u>

6 Directors

Remuneration in respect of directors was as follows:

	2003	2002
	£	£
Emoluments receivable	1,408,804	944,018
Value of company pension contributions to money purchase schemes	74,000	73,400
	<u>1,482,804</u>	<u>1,017,418</u>

Emoluments of highest paid director:

	2003	2002
	£	£
Total emoluments (excluding pension contributions):	850,819	600,168
Value of company pension contributions to money purchase schemes	37,000	36,700
	<u>887,819</u>	<u>636,868</u>

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

	2003	2002
	No	No
Money purchase schemes	<u>2</u>	<u>2</u>

7 Interest payable and similar charges

	2003	2002
	£	£
Interest payable on bank borrowing	2,461	1,976
Finance charges	11,440	9,780
	<u>13,901</u>	<u>11,756</u>

8 Taxation on ordinary activities

(a) Analysis of charge in the year

	2003	2002
	£	£
Current tax:		
UK Corporation tax based on the results for the year at 30% (2002 - 30%)	89,773	32,226
(Over)/under provision in prior year	(18)	(136,570)
Total current tax	<u>89,755</u>	<u>(104,344)</u>

(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% (2002 - 30%).

	2003	2002
	£	£
Profit on ordinary activities before taxation	<u>292,436</u>	<u>50,225</u>
Profit/(loss) on ordinary activities by rate of tax	87,731	15,068
Expenses not deductible for tax purposes	19,011	25,423
Capital allowances in excess of depreciation	(5,614)	7,589
Marginal relief	(11,355)	(15,854)
(Over)/under provision in prior year	(18)	(136,570)
Total current tax (note 8(a))	<u>89,755</u>	<u>(104,344)</u>

9 Dividends

	2003	2002
	£	£
Equity dividends:		
Proposed dividend on ordinary shares	<u>213,332</u>	<u>213,332</u>

10 Tangible fixed assets

	Computer Equipment £	Fixtures & Fittings £	Motor Vehicles £	Total £
Cost				
At 1 January 2003	133,742	12,469	535,436	681,647
Additions	41,693	4,879	240,884	287,456
Disposals	—	—	(365,510)	(365,510)
At 31 December 2003	<u>175,435</u>	<u>17,348</u>	<u>410,810</u>	<u>603,593</u>
Depreciation				
At 1 January 2003	88,294	8,512	139,768	236,574
Charge for the year	25,292	2,460	110,082	137,834
On disposals	—	—	(142,627)	(142,627)
At 31 December 2003	<u>113,586</u>	<u>10,972</u>	<u>107,223</u>	<u>231,781</u>
Net book value				
At 31 December 2003	<u>61,849</u>	<u>6,376</u>	<u>303,587</u>	<u>371,812</u>
At 31 December 2002	<u>45,448</u>	<u>3,957</u>	<u>395,668</u>	<u>445,073</u>

Included within the net book value of £371,812 is £294,476 (2002 - £199,659) 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 £67,818 (2002 - £27,282).

11 Investments

	Investments £
Cost	
At 1 January 2003 and 31 December 2003	<u>3,185</u>
Amounts written off	
At 1 January 2003 and 31 December 2003	<u>3,184</u>
Net book value	
At 31 December 2003	<u>1</u>
At 31 December 2002	<u>1</u>

12 Debtors

	2003	2002
	£	£
Insurance debtors	1,615,804	2,090,571
Amounts owed by group undertakings	69,454	67,887
Prepayments and accrued income	79,913	103,487
	<u>1,765,171</u>	<u>2,261,945</u>

The company has signed a formal Loan Subordination agreement in respect of £67,000 owed by group undertakings. Repayment of this loan is therefore expected after more than one year.

13 Creditors: amounts falling due within one year

	2003	2002
	£	£
Insurance creditors	3,655,495	3,953,418
Amounts owed to group undertakings	493	493
Corporation tax	81,974	28,856
Other taxation and social security	118,535	38,220
Amounts due under finance leases and hire purchase agreements	76,315	68,785
Proposed dividends	213,332	213,332
Directors current accounts	53,332	33,754
Accruals and deferred income	337,969	997,526
	<u>4,537,445</u>	<u>5,334,384</u>

14 Creditors: amounts falling due after more than one year

	2003	2002
	£	£
Amounts due under finance leases and hire purchase agreements	<u>20,311</u>	<u>38,155</u>

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

15 Commitments under finance leases and hire purchase agreements

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

	2003	2002
	£	£
Amounts payable within 1 year	76,315	68,785
Amounts payable between 1 and 2 years	20,311	38,155
	<u>96,626</u>	<u>106,940</u>

16 Pensions

The company operates a defined contribution pension scheme for the benefit of the directors. 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 £84,293 (2002- £82,963).

17 Leasing commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as set out below.

	Land & Buildings	
	2003	2002
	£	£
Operating leases which expire:		
Within 2 to 5 years	51,000	—
After more than 5 years	—	39,226
	<u>51,000</u>	<u>39,226</u>

18 Related party transactions

At 31 December 2003, the company had the following balances with related parties:

	2003	2002
	£	£
Debtors:		
Morgan Law (Financial Services) Limited	69,454	67,887
Creditors:		
Morgan Law (Holdings) Limited	(493)	(493)
P A Smith	(26,666)	(33,538)
K F Watson	(26,666)	(216)

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

Expenses amounting to £1,597 (2002 - £13,987) were paid by Morgan Law Limited on behalf of Morgan Law (Financial Services) Limited, its fellow subsidiary.

The company charged Morgan Law (Financial Services) Limited a management charge of £5,000 (2002 - £7,000) during the year.

The following amounts were transferred from Morgan Law (Financial Services) Limited to Morgan Law Limited via the inter company accounts:

K F Watson directors loan account £nil (2002 - £33,702)

A car was sold to Morgan Law (Financial Services) Limited for proceeds of £15,000. The net book value at the time of disposal was £16,505.

Two cars were sold to Mr K F Watson, a director, for their market values of £11,000 and £40,000. The net book values at the time of disposal were £8,684 and £40,579 respectively.

In the previous year a car was sold to Mr P A Smith, a director, for its market value of £40,000. The net book value at the time of disposal was £42,000.

Also, a car was purchased from Morgan Law (Financial Services) Limited for £35,000.

19 Share capital

Authorised share capital:

	2003	2002
	£	£
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

Allotted, called up and fully paid:

	2003		2002	
	No	£	No	£
	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Ordinary shares of £1 each				

20 Reconciliation of movements in shareholders' funds

	2003	2002
	£	£
Profit for the financial year	202,681	154,569
Dividends	(213,332)	(213,332)
	<u>(10,651)</u>	<u>(58,763)</u>
Opening shareholders' equity funds	786,878	845,641
Closing shareholders' equity funds	<u>776,227</u>	<u>786,878</u>

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

	2003	2002
	£	£
Operating profit/(loss)	200,819	(26,957)
Amortisation	-	7,575
Depreciation	137,834	147,490
Profit on disposal of fixed assets	(9,847)	(17,928)
Decrease in debtors	496,774	1,199,402
Decrease in creditors	(857,587)	(122,842)
Net cash (outflow)/inflow from operating activities	<u>(32,007)</u>	<u>1,186,740</u>

22 Reconciliation of net cash flow to movement in net funds

	2003 £	2002 £
(Decrease)/increase in cash in the period	(255,399)	559,772
Cash outflow in respect of finance leases and hire purchase	251,199	196,137
Change in net funds resulting from cash flows	(4,200)	755,909
New finance leases	(240,885)	(173,397)
Movement in net funds in the period	(245,085)	582,512
Net funds at 1 January 2003	3,345,458	2,762,946
Net funds at 31 December 2003	3,100,373	3,345,458

23 Analysis of changes in net funds

	At 1 Jan 2003 £	Cash flows £	Other changes £	At 31 Dec 2003 £
Net cash:				
Cash in hand and at bank	3,452,398	(255,399)	—	3,196,999
Debt:				
Finance leases and hire purchase agreements	(106,940)	251,199	(240,885)	(96,626)
Net funds	3,345,458	(4,200)	(240,885)	3,100,373

24 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 £240,885 (2002 - £173,397).

25 Contingencies

The directors have confirmed that there were no contingent liabilities which should be disclosed at 31 December 2003.

26 Capital commitments

The directors have confirmed that there were no capital commitments at 31 December 2003.

27 Ultimate parent company

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