

Registered number 2741053

ZURICH MANAGEMENT SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2005



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## **Company information**

### **Directors**

R Cottell

S P Hancock (appointed 25 November 2005)

J F Packham (appointed 28 June 2005)

I C R Stuart

### **Secretary**

P F Worthington

### **Registered office**

The Zurich Centre

3000 Parkway

Whiteley

Fareham

Hampshire

PO15 7JZ

### **Auditors**

PricewaterhouseCoopers LLP

Southwark Towers

32 London Bridge Street

London

SE1 9SY

## **Directors' report**

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

### **Principal activities and review of the business**

The Company's principal activity during the year was that of delivering risk management and administration services to both public and private service organisations.

Zurich Risk Services Asia Pacific Sdn. Bhd., a wholly owned subsidiary, provides Risk Engineering and allied services to the Zurich Financial Services Group (ZFS) companies and their customers worldwide with work involving the systematic identification, assessment and improvement of risk.

The 2004 report and financial statements did not include administrative expenses which related to this company but were included in the financial statements of another group company. Subsequently the 2004 results have been restated. The effect of this restatement is an increase in administrative expenses of £1,756,727, tax on profit has decreased by £527,018 and creditors: amounts falling due within one year has increased by £3,164,085.

### **Results**

The results for the year are shown in the profit and loss account on page 8.

### **Dividends**

An interim ordinary dividend of £2,500,000 was paid during the year (2004: £nil). The directors do not recommend the payment of a final dividend.

### **Directors**

The names of the directors at the date on which the accounts were approved are shown on page 1.

The following director resigned during the year:

M C Chessher (resigned 28 June 2005)

J C Atkinson (resigned 07 August 2005)

### **Directors' interests**

The Company is a wholly owned subsidiary of Zurich Financial Services, a company incorporated in Switzerland. As such, no director had any interests in shares and debentures required to be disclosed under the Companies Act 1985.

No directors had material interests in contracts of significance with the Company or any subsidiary company of Zurich Financial Services during the year.

## **Directors' report**

### **Employee involvement**

Communication and consultation initiatives such as regular meetings with employee representatives, employee surveys, team meetings, presentations and workshops were again key actions in 2005. The role of electronic communication in keeping people informed has continued with the use and growth of intranet Communication vehicles such as Connect (Group wide), and UKi, the intranet for the whole of the UK. Business briefings are also core activities where the Company seeks to build employee awareness of the financial and economic factors affecting performance.

The more extensive use of senior management business events where staff have the opportunity to meet and discuss matters of general importance with Heads of Business has also been a feature of the communication and consultation process across Zurich Financial Services during 2005.

### **Employee share schemes**

The Company encourages both awareness of Zurich Financial Services' financial performance and participation in its success through our Share Schemes.

Zurich Group Holding operates a Revenue approved Share Incentive Plan (SIP) and the Partnership element of the SIP was launched in 2003 enabling participating employees to make monthly purchases of shares in Zurich Financial Services out of gross pay. In March 2004, the free shares element of the SIP was established under the brand 'Reward Shares'. Allocated shares in Zurich Financial Services in May 2005 were based on the business performance of operating units for the year ended 31 December 2005 in which eligible employees worked.

### **Employment of disabled staff in the United Kingdom**

Zurich Financial Services' policy on recruitment and promotion is based on an individual's capability to do the job. Full and fair consideration is given to experience, qualifications and overall ability to perform the job. Zurich Financial Services' training functions are equipped to meet any special needs of disabled individuals and favourable consideration is given to the modification of facilities and provision of special aids or equipment.

The Company actively monitors recruitment, development and promotion to ensure that Zurich Financial Services provide career development opportunities to disabled employees and the Company remains satisfied that policy and practice exceeds statutory requirements.

For those employees becoming disabled during the course of their employment, every effort is made to ensure they remain with the Zurich Financial Services Group by finding them suitable alternative employment, whether through retraining or redeployment, or, where this is not possible, financial provision is made for such permanent employees through the operation of long-term sickness cover and health insurance arrangements.

## **Directors' report**

### **Creditor payment policy**

All external creditors are settled by other group companies.

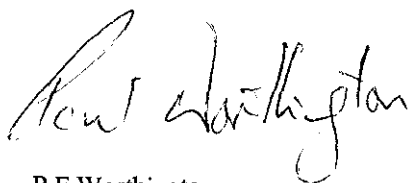
### **Financial Instruments**

The directors consider that there is no material exposure to price, currency, credit, liquidity or interest rate risk for the financial instruments held by the Company. The Company does not hold equity instruments; the financial assets and liabilities are British pound denominated and these are mainly represented by financial assets receivable from and payable to fellow group undertakings.

### **Auditors**

The directors have taken advantage of the elective regime, under section 386 of the United Kingdom Companies Act 1985, for the dispensation from the annual appointment of auditors. The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office.

By order of the Board



P F Worthington  
Company Secretary  
11 September 2006

## Statement of directors' responsibilities

The following statement sets out the responsibilities of the directors in relation to the financial statements of the Company. The report of the auditors, shown on page 6, sets out their responsibilities in relation to the financial statements.

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 as at the end of the financial period and of the profit or loss for the financial period. In preparing those financial statements, the directors are required to:

- Select appropriate policies and apply them consistently, subject to any material departures being disclosed and explained;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The directors confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to enable them to ensure that the financial statements comply with the United Kingdom Companies Act 1985.

They are also responsible for taking reasonable steps to safeguard the assets of the Company, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

## **Independent auditors' report to the shareholders of Zurich Management Services Limited**

We have audited the financial statements of Zurich Management Services Limited for the year ended 31 December 2005 which comprise the Profit and Loss account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards and Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 other transactions is not disclosed.

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

### **Basis of audit 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.



## **Independent auditors' report to the shareholders of Zurich Management Services Limited**

### **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
- have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
11 September 2006

**Profit and loss account  
for the year ended 31 December 2005**

£'s	Notes	2005	Restated 2004
Turnover	1	40,127,661	39,409,040
Cost of sales		(28,429,502)	(28,907,535)
<b>Gross profit</b>		<b>11,698,159</b>	<b>10,501,505</b>
Administrative expenses		(7,083,561)	(6,430,433)
<b>Profit on ordinary activities before taxation</b>		<b>4,614,598</b>	<b>4,071,072</b>
Tax on profit on ordinary activities	5	(1,421,354)	(1,221,491)
<b>Profit for the financial year</b>		<b>3,193,244</b>	<b>2,849,581</b>
All figures relate to continuing operations.			

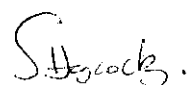
**Reconciliation of movements in shareholders' funds  
for the year ended 31 December 2005**

£'s	Share capital	Profit and loss account	2005	Restated 2004
Opening shareholders' funds	100	2,558,899	<b>2,558,999</b>	(290,582)
Profit for the financial year	-	3,193,244	<b>3,193,244</b>	2,849,581
Dividends paid in the financial year	-	(2,500,000)	<b>(2,500,000)</b>	-
Net increase in shareholders' funds	-	693,244	<b>693,244</b>	2,849,581
<b>Closing shareholders' funds</b>	<b>100</b>	<b>3,252,143</b>	<b>3,252,243</b>	<b>2,558,999</b>

**Balance sheet**  
**as at 31 December 2005**

<b>£'s</b>	<b>Notes</b>	<b>2005</b>	<b>Restated 2004</b>
<b>Assets</b>			
<b>Investments</b>			
Investments in group undertakings	7	72,157	72,157
<b>Current assets</b>			
Debtors	8	14,960,801	15,706,575
Cash at bank and in hand		7,134,044	9,045,725
		22,094,845	24,752,300
<b>Creditors: amounts falling due within one year</b>	9	(18,914,759)	(22,265,458)
<b>Net current assets</b>		<b>3,180,086</b>	<b>2,486,842</b>
<b>Total assets less current liabilities</b>		<b>3,252,243</b>	<b>2,558,999</b>
<b>Capital and reserves</b>			
Called up share capital	10	100	100
Profit and loss account		3,252,143	2,558,899
<b>Equity shareholders' funds</b>		<b>3,252,243</b>	<b>2,558,999</b>

The financial statements on pages 8 to 16 were approved by the Board on 11 September 2006 and were signed on its behalf by



S P Hancock  
Director

## **Accounting policies for the year ended 31 December 2005**

### **Basis of preparation**

The Company's financial statements have been prepared in accordance with the provisions of Section 226 and schedule 4 of the United Kingdom Companies Act 1985. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

The Company has also taken advantage of the exemption in FRS1 (Revised) and has not prepared a cash flow statement as the Company is a wholly owned subsidiary of a parent company that prepares a cash flow statement. As a wholly owned subsidiary of another company incorporated in Great Britain, the Company is exempt from preparing group accounts under Section 228 of the Companies Act 1985.

The 2004 report and financial statements did not include administrative expenses which related to this company but were included in the financial statements of another group company. Subsequently the 2004 results have been restated. The effect of this restatement is an increase in administrative expenses of £1,756,727, tax on profit has decreased by £527,018 and creditors: amounts falling due within one year has increased by £3,164,085.

### **Accounting convention**

The accounts are prepared under the historical cost convention.

### **Changes in Accounting Policy**

The Company has adopted the requirements of all relevant accounting standards, including those issued during the year and effective for 31 December 2005.

Adoption of FRS 21 'Events after the balance sheet date' represents a change in accounting policy. The Company's adoption of FRS 21 'Events after the balance sheet date' has required a revision to the format of the Profit and Loss account to remove the disclosure of dividends payable.

### **Investments**

Investments in subsidiaries are valued at cost less any provision that may be required for impairment.

### **Recognition of revenue**

Revenue is recognised and earned within the profit and loss account over the duration of the contract.

### **Commission costs**

Commission costs are deferred over the period in which the related fees are earned.

### **Amounts recoverable on contracts**

Amounts recoverable on contracts represent the value of work included in turnover on particular contracts in excess of amounts received and receivable to date.

**Accounting policies**  
**for the year ended 31 December 2005**  
**Deferred tax**

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses.

**Pension costs**

The Company participates in two multi-employer defined benefit schemes operated by an intermediate holding company. The schemes are valued on a triennial basis by independent qualified actuaries and contributions are made based on their recommendations.

Pension costs for the principal scheme, which are included in expenses where appropriate, are accounted for as if the Scheme were a defined contribution scheme using the exemptions set out in paragraph 9(b) of FRS 17, as the contributions to the scheme are affected by a surplus and the company is unable to identify its share of the underlying assets and liabilities in the Scheme on a consistent and reasonable basis. Further details are given in the notes to the accounts.

**Notes to the accounts**  
**for the year ended 31 December 2005**

**1 Turnover**

Turnover is the total amount receivable by the Company for services provided excluding VAT, and arises entirely within the UK.

Turnover is attributable to risk management and administration services.

**2 Auditors' remuneration**

The remuneration of the auditors of the Company and its subsidiaries for audit services for 2005 was £10,052 (2004: £11,347). Fees paid to PricewaterhouseCoopers LLP for non-audit services in the UK were £nil (2004: £nil).

**3 Directors' emoluments**

No remuneration was payable to the directors during the period in relation to their service as directors of the Company (2004: £nil).

**4 Staff costs**

Employees in the UK working on behalf of the Company are employed by either Eagle Star Direct Services Limited, Zurich UK General Employee Services Limited or Zurich UK General Services Limited. These employees may also work on behalf of any other Zurich Financial Services' companies.

The principal disclosures in respect of these staff appear in the accounts of Eagle Star Direct Services Limited, Zurich UK General Employee Services Limited and Zurich UK General Services Limited, copies of which can be obtained from The Secretary, The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire, PO15 7JZ.

**Notes to the accounts  
for the year ended 31 December 2005**

**5 Taxation**

Taxation in the profit and loss account was as follows:

£'s	2005	Restated 2004
United Kingdom Taxation:		
UK corporation tax at 30% (2004:30%) for the year	1,421,354	1,221,322
Adjustments in respect of prior years	31,591	169
Current tax charge for the year	1,452,945	1,221,491
Deferred tax:		
Origination and reversal of timing differences	(31,591)	-
Tax on profit on ordinary activities	1,421,354	1,221,491

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

£'s	2005	Restated 2004
Profit on ordinary activities before tax	4,614,598	4,071,072
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 30% (2004: 30%)	1,384,379	1,221,322
UK taxation on overseas income	36,975	-
Adjustments to tax charge in respect of previous periods	31,591	169
Current tax charge for the year	1,452,945	1,221,491

The 2004 report and financial statements did not include administrative expenses which related to this company but were included in the financial statements of another group company. Subsequently the 2004 results have been restated. The effect of this restatement is an increase in administrative expenses of £1,756,727, tax on profit has decreased by £527,018.

**6 Dividends**

£'s	2005	2004
Equity shares		
Dividend paid of £25,000 per share (2004: nil)	(2,500,000)	-
	(2,500,000)	-

**Notes to the accounts  
for the year ended 31 December 2005**

**7 Investments in group undertakings**

<b>Cost</b>		
<b>£'s</b>	<b>2005</b>	<b>2004</b>
Shares in subsidiary undertakings:		
Cost at 1 January	72,157	-
499,998 ordinary shares of 1 Malaysian Ringitt each	-	72,157
Cost at 31 December	72,157	72,157

The directors have considered the value of the Company's investments in subsidiary undertakings as at 31 December 2005 and are satisfied that the value of each investment is not less than the amount at which it is stated in the balance sheet.

**8 Debtors**

<b>£'s</b>	<b>2005</b>	<b>2004</b>
Trade debtors	10,892,969	12,248,064
Amounts recoverable on contracts	320,800	517,900
Amounts owed by Group undertakings	14,704	2,234,054
Other debtors	3,081,194	-
Corporation tax receivable (see note 11)	31,591	-
Prepayments and accrued income	619,543	706,557
	14,960,801	15,706,575

**9 Creditors: amounts falling due within one year**

<b>£'s</b>	<b>2005</b>	<b>Restated 2004</b>
Trade creditors	519,616	725,955
Amounts owed to Group undertakings	496,220	4,520,824
Other creditors including tax and social security	3,013,938	3,097,986
Accruals and deferred income	14,884,985	13,920,693
	18,914,759	22,265,458

The 2004 report and financial statements did not include administrative expenses which related to this company but were included in the financial statements of another group company. Subsequently the 2004 results have been restated. Creditors: amounts falling due within one year has increased by £3,164,085.



**Notes to the accounts  
for the year ended 31 December 2005**

**10 Share capital**

<b>£'s</b>	<b>2005</b>	<b>2004</b>
Allotted, called up and fully paid:		
100 ordinary shares of £1 each	<b>100</b>	100
	<b>100</b>	100
Authorised:		
100 ordinary shares of £1 each	<b>100</b>	100
	<b>100</b>	100

**11 Deferred Taxation**

The deferred taxation balance comprises:

<b>£'s</b>	<b>2005</b>	<b>2004</b>
Provisions	<b>31,591</b>	-
<b>Deferred taxation asset</b>	<b>31,591</b>	-

In accordance with the provisions of FRS 19 'Deferred Tax', full provision has been made for deferred tax on assets and liabilities arising on timing differences. As permitted by FRS 19, deferred tax balances have been discounted to reflect the time value of money.

**12 Pension and post-retirement benefits**

Employees of the company are members of two funded defined benefit schemes operated by the intermediate holding company Zurich Financial Services (UKISA) Limited. The principal scheme is the Zurich Financial Services UK Pension Scheme. The last actuarial valuation of the principal Scheme, at 30 June 2004 and which was carried out by qualified and independent actuaries, identified a surplus of £27m. It is not possible to identify the Company's share of the underlying assets and liabilities on a consistent and reasonable basis, and so the Company has accounted for the Scheme as a defined contribution scheme. Contributions by the group to the principal scheme in the period were £61m (2004: nil), being 20% of pensionable salary.

Details of the Scheme and the disclosures required by FRS 17 appear in the accounts of Zurich Financial Services (UKISA) Limited.

**Notes to the accounts  
for the year ended 31 December 2005**

**13 Ultimate parent company**

The Company's ultimate parent company is Zurich Financial Services, which is incorporated in Switzerland. Copies of the consolidated financial statements of Zurich Financial Services can be obtained from The Secretary, Zurich Financial Services, Mythenquai 2, 8002 Zurich, Switzerland.

Zurich Holdings (UK) Limited is the parent company of the smallest group of companies, of which the Company is a wholly owned subsidiary, for which group accounts are drawn up. Copies of the consolidated financial statements of Zurich Holdings (UK) Limited can be obtained from The Secretary, The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire, PO15 7JZ.

**14 Related party transactions**

The Company has taken advantage of an exemption from FRS8 not to disclose transactions with Zurich Financial Services' group undertakings. Balances with Zurich Financial Services' group undertakings are shown in notes 8 and 9.

There were no material transactions with any other related party.

The directors of the Company and its key management had no material transactions with any related parties of the Zurich Financial Services Group. The terms 'director' and 'key management' include members of their families.

**15 Principal subsidiary undertakings**

The following details the Company's principal subsidiary undertaking as at 31 December 2005 and particulars of the percentage of nominal value of issued shares then held:

<u>Company and country of incorporation and registration</u>	<u>Class of share capital</u>	<u>Nominal value held %</u>
<b>Malaysia</b>		
Zurich Risk Services Asia Pacific Sdn. Bhd.	ordinary	100

The principal country in which each of the above named subsidiary undertakings operates is its country of registration or incorporation. The Company has taken advantage of Section 231 (5) of the United Kingdom Companies Act 1985 and listed only those subsidiary undertakings which principally affected the figures shown in the accounts.