

Towergate Holiday Homes Underwriting Agency Limited

**Directors' report and financial statements
for the year ended 31 December 2002
Registered number 2827525**



Directors' report and financial statements

Contents

Directors' report	1-2
Statement of directors' responsibilities	3
Report of the independent auditors to the members of Towergate Holiday Homes Underwriting Agency Limited	4
Profit and loss account	5
Balance sheet	6
Reconciliation of movements in shareholders' funds	7
Notes	8-17

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activities

The profit and loss account for the year is set out on page 5.

The principal activity of the Company is the provision of insurance underwriting services for Holiday Homes in the UK and Europe.

Business review

Both the level of business and the year end financial position remain satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

Proposed dividend

The directors have declared the following dividends in respect of the year ended 31 December 2002.

Dividends of £2,750,000 (2001: £nil) were declared during the year.

The directors do not recommend the payment of any further dividends.

Directors and directors' interests

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

PG Cullum
PF Dyer
PW Alexander
A Proverbs
NJ Crocker

The directors who held office at the end of the financial year had the following interests (including family interests) in the shares of the Company according to the register of directors' interests:

	Towergate Underwriting Group Limited				Towergate Holiday Homes Underwriting Agency Limited			
	Ordinary Shares £1		Preference Shares £1		Ordinary "A" Shares £1		Ordinary "B" Shares £1	
	31 December 2001	31 December 2002	31 December 2001	31 December 2002	31 December 2001	31 December 2002	31 December 2001	31 December 2002
PG Cullum	35,550	35,550	14,725	14,725	-	-	134	134
PF Dyer	6,000	6,000	129,500	129,500	-	-	14	14
NJ Crocker	200	200	1,900	1,900	-	-	-	-
A Proverbs	5,000	5,000	40,500	40,500	-	-	-	-
PW Alexander	50	50	475	475	-	-	-	-

No directors have been granted share options in the shares of the Company.

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

Directors' Report *(continued)*

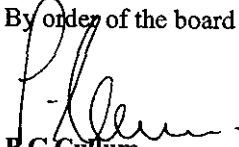
Political and charitable contributions

The Company made no political or charitable contributions during the year.

Auditors

In accordance with Sections 379A and 386 of the Companies Act 1985, the Company has dispensed with the resolution to appoint auditors annually.

By order of the board


P G Cullum
Director

30 April 2003

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 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 which 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of Towergate Holiday Homes Underwriting Agency Limited

We have audited the financial statements on pages 5 to 17.

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 auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

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 Company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

30 April

2003

**Profit and loss account
for the year ended 31 December 2002**

	<i>Note</i>	2002 £	2001 £
Turnover – Continuing operations	2	1,765,335	1,401,433
Administrative expenses		(738,554)	(627,248)
Amortisation of goodwill		(2,600)	(784)
Other income		75,307	65,575
		<hr/>	<hr/>
Operating profit – Continuing operations		1,099,488	838,976
Other interest receivable and similar income		29,985	22,868
Interest payable and similar charges	6	(2,557)	(9,428)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3	1,126,916	852,416
Tax on profit on ordinary activities	7	(2,130)	(2,100)
		<hr/>	<hr/>
Profit on ordinary activities after taxation		1,124,786	850,316
Dividends	8	(2,750,000)	-
		<hr/>	<hr/>
Retained (Loss) / Profit for the year		(1,625,214)	850,316
		<hr/>	<hr/>

The Company has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

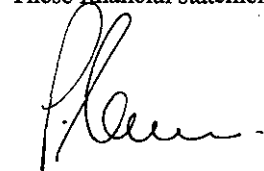
The notes on pages 8 to 17 form part of these financial statements.

**Balance sheet
at 31 December 2002**

	<i>Note</i>	2002 £	2002 £	2001 £
Fixed assets				
Intangible assets	9		48,616	51,216
Tangible assets	10		33,144	49,502
			<hr/> 81,760	<hr/> 100,718
Current assets				
Debtors	11	1,296,021		2,819,870
Cash at bank and in hand		585,000		613,544
		<hr/> 1,881,021		<hr/> 3,433,414
Creditors: amounts falling due within one year	12	(1,625,217)		(1,532,658)
		<hr/>		<hr/>
Net current assets			255,804	1,900,756
			<hr/>	<hr/>
Total assets less current liabilities			337,564	2,001,474
			<hr/>	<hr/>
Creditors: amounts falling due after more than one year	13		-	(38,696)
			<hr/>	<hr/>
Net assets			337,564	1,962,778
			<hr/> <hr/>	<hr/> <hr/>
Capital and reserves				
Called up share capital	14		50,200	50,200
Profit and loss account	15		287,364	1,912,578
			<hr/>	<hr/>
Equity Shareholders' funds			337,564	1,962,778
			<hr/> <hr/>	<hr/> <hr/>

The notes on pages 8 to 17 form part of these financial statements.

These financial statements were approved by the board of directors on 30 April 2003 and were signed on its behalf by:


P G Cullum
Director

**Reconciliations of movements in shareholders' funds
For the year ended 31 December 2002**

	2002 £	2001 £
Profit for the financial year	1,124,786	850,316
Dividends	(2,750,000)	-
	<hr/>	<hr/>
Net decrease in shareholders' funds	(1,625,214)	850,316
Opening shareholders' funds	1,962,778	1,112,462
	<hr/>	<hr/>
Closing shareholders' funds	337,564	1,962,778
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below. These have been applied consistently except that the Group has adopted FRS 19 (Deferred Tax) during the year. This has not had a material impact, in the current or prior period.

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Towergate Underwriting Group Limited the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Towergate Underwriting Group Limited within which this Company is included, can be obtained from the address given in note 16.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Office equipment	-	20% per annum
Fixtures & fittings	-	15% per annum
Motor vehicles	-	25% per annum
Computer equipment	-	25% per annum

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on acquisition is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. This is taken as twenty years.

Taxation

Deferred tax is recognised, without discounting, in respect of all material timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes (continued)

Accounting policies (continued)

Foreign Currencies

Transaction in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

2 Turnover

Turnover comprises net receivable commissions, fees and (where ascertained) the agreed share from underwriting profit arrangements.

Turnover is derived from business conducted in the United Kingdom.

3 Profit on ordinary activities before taxation

	2002 £	2001 £
Profit on ordinary activities before taxation is stated:		
after charging		
Auditors' remuneration: - audit	14,326	10,300
Depreciation and other amounts written off tangible fixed assets:		
Owned	8,773	36,340
Leased	16,574	16,574
after crediting		
Profit on disposal of fixed assets	2,500	6,443

Notes (continued)

4 Remuneration of directors

	2002 £	2001 £
Directors' emoluments	-	34,000

The emoluments of Mr Cullum, Mr Dyer and Mr Proverbs are paid by Towergate Underwriting Group Limited which makes no recharge to the Company. Messrs Cullum, Dyer and Proverbs are directors of the ultimate parent Company and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of the above named directors. Their total emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the ultimate parent Company.

No emoluments were received by Mr Alexander for his duties as a director of the Company. He is an employee of the parent company.

5 Staff numbers and costs

The average number of persons employed by the Company during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Administration	18	15

The aggregate payroll costs of these persons were as follows:

	2002 £	2001 £
Wages and salaries	277,975	202,266
Social security costs	23,440	14,160
	<u>301,415</u>	<u>216,426</u>

Notes (continued)

6 Interest payable and similar charges

	2002 £	2001 £
On bank loans and overdrafts	66	-
Finance charges payable in respect of finance leases and hire purchase contracts	2,491	6,306
On late tax	-	3,122
	<u>2,557</u>	<u>9,428</u>

7 Taxation

Analysis of charge in period

	2002 £	2001 £
<i>UK Corporation tax</i>		
Current tax on income for the year	2,408	2,500
Adjustments in respect of prior year	(278)	(400)
	<u>2,130</u>	<u>2,100</u>

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2001: lower) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	2002 £	2001 £
Current tax reconciliation		
Profit on ordinary activities before tax	1,126,916	852,416
Current tax at 30%	338,075	255,725
Effects of:		
Expenses not deductible for tax purposes	911	235
Depreciation in excess of capital allowances	524	395
Loss surrendered by fellow group companies	(335,760)	(252,605)
Adjustment for small companies rate	(1,342)	(1,250)
	<u>2,408</u>	<u>2,500</u>

There are no known factors that may affect future tax charges, (2001: none).

Notes (continued)

8 Dividends

	2002 £	2001 £
Dividends on equity shares:	2,750,000	-

9 Intangible fixed assets

	Goodwill £
Cost	
At beginning of year	52,000
Additions	-
	<hr/>
At end of year	52,000
	<hr/>
Amortisation	
At beginning of year	784
Charged in year	2,600
	<hr/>
At end of year	3,384
	<hr/>
Net book value	
At 31 December 2002	48,616
	<hr/>
At 31 December 2001	51,216
	<hr/>

All goodwill has arisen due to the acquisition of a book of business and is amortised over a twenty-year period.

Notes (continued)

10 Tangible fixed assets

	Motor vehicles £	Office equipment £	Fixtures & fittings £	Computer equipment £	Total £
Cost					
At beginning of year	118,118	97,046	-	82,530	297,694
Additions	-	319	416	8,254	8,989
Disposals	(19,826)	-	-	-	(19,826)
At end of year	98,292	97,365	416	90,784	286,857
Depreciation					
At beginning of year	84,775	87,986	-	75,431	248,192
Charge for year	14,475	5,963	39	4,870	25,347
Eliminated on disposals	(19,826)	-	-	-	(19,826)
At end of year	79,424	93,949	39	80,301	253,713
Netbook value					
At 31 December 2002	18,868	3,416	377	10,483	33,144
At 31 December 2001	33,343	9,060	-	7,099	49,502

The total net book value of motor vehicles of £18,868 (2001: £33,343) relates to assets held under hire purchase contracts. Depreciation for the year on these assets was £16,574 (2001: £16,574).

11 Debtors

	2002 £	2001 £
Trade debtors	5,448	-
Insurance debtors	1,198,273	1,156,620
Amounts owed by group undertakings	71,492	1,643,230
Other debtors	4,150	4,000
Prepayments and accrued income	16,658	16,020
	1,296,021	2,819,870

Insurance debtors include amounts owed by other group companies of £3,442.

Notes (continued)

12 Creditors: amounts falling due within one year

	2002 £	2001 £
Trade creditors	3,247	-
Insurance creditors	1,425,881	1,371,065
Amounts owed to group undertakings	21,229	82,578
Corporation tax	460	3,674
Taxation and social security	7,749	3,782
Other creditors	17,546	15,900
Accruals and deferred income	110,409	43,846
Obligations under finance lease and hire purchase contracts	38,696	11,813
	<hr/> 1,625,217 <hr/>	<hr/> 1,532,658 <hr/>

13 Creditors: amounts falling due after more than one year

	2002 £	2001 £
Obligations under finance lease and hire purchase contracts	-	38,696
	<hr/>	<hr/>

The maturity of obligations under hire purchase contracts is as follows:

	2002 £	2001 £
Within one year	38,755	14,304
In the second to fifth years	-	38,756
	<hr/>	<hr/>
	38,755	53,060
Less: future finance charges	(59)	(2,551)
	<hr/> 38,696 <hr/>	<hr/> 50,509 <hr/>

Notes (continued)

14 Called up share capital

	2002 £	2001 £
Authorised		
50,000 "A" Ordinary shares of £1 each	50,000	50,000
200 "B" Ordinary shares of £1 each	200	200
200 Deferred shares of £1 each	200	200
	<hr/> 50,400 <hr/>	<hr/> 50,400 <hr/>
 Allotted, called up and fully paid		
50,000 "A" Ordinary shares of £1 each	50,000	50,000
200 "B" Ordinary shares of £1 each	200	200
	<hr/> 50,200 <hr/>	<hr/> 50,200 <hr/>

Holders of the "A" Ordinary shares have full voting rights whereas the holders of the "B" Ordinary shares are not entitled to receive notice of or to attend and vote at any general meeting of the Company.

The holders of the "A" Ordinary shares are entitled to a non-cumulative Ordinary dividend of such amount as the Company shall determine from time to time. Holders of the "B" Ordinary shares are solely entitled to receive a Preferred dividend equal to the underwriting profit commission received by the Company in respect of premium written during the period 1 January 1998 to 18 December 1998.

Each "B" Ordinary share in issue shall be converted into a Deferred share of an equivalent par value immediately following payment by the Company of the Preferred dividend in full to the "B" Ordinary shareholders.

In the event of a winding-up the assets and the retained profits of the Company shall be distributed to the "A" Ordinary shareholders. The holders of the "B" Ordinary shares have no right to receive any such assets or retained profits.

15 Reserves

	2002 Profit and loss account £	2001 Profit and loss account £
At beginning of year	1,912,578	1,062,262
Retained (loss) / profit for the year	(1,625,214)	850,316
	<hr/> 287,364 <hr/>	<hr/> 1,912,578 <hr/>

Notes (continued)

16 Related party disclosures

The Company is a subsidiary undertaking of Towergate Underwriting Group Limited, which is the ultimate parent Company incorporated in England and Wales.

The consolidated accounts of this Company are available to the public and may be obtained from:

Towergate House
St Leonard's Road
20/20 Maidstone
Kent ME16 OLS

17 Controlling party

Mr PG Cullum, the Chairman, is the controlling party by virtue of his controlling interest in the parent Company's equity capital.

18 Annual commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	Land and buildings
	2002	2001
	£	£
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	-	-
Over five years	22,500	22,500
	<hr/>	<hr/>
	22,500	22,500
	<hr/>	<hr/>

Notes (continued)

19 Contingent liabilities

A guarantee and debenture have been granted over the shares and the assets of the Company in favour of RBS Mezzanine Limited, under the terms of which all monies due or which may become due from the Company, or other group companies listed below to RBS Mezzanine Limited are guaranteed. The amount due by group companies at 31 December 2002 was £19,250,000 (2001 - £20,500,000). The terms of these arrangements were updated in August 2001 and include the following group companies.

A major insurer has a fixed charge and right of set off over all book debts of the Company, and other group companies, relating to their right to receive commission income from third parties in respect of insurance business underwritten by or on behalf of those third parties. The liability of group companies is joint and several and includes those companies marked by an asterisk in the list below.

Alec Finch Professional Indemnity Limited
Bakers of Cheltenham Limited*
Byas Mosley UK Limited
Carrington International Insurance Brokers Limited
Compleat Solutions Limited
Country Thatch Insurance Agency Limited
Dickinsons General Insurance Services Limited
Foreman Bassett (Schemes) Limited*
Highlands & Islands Insurance Services Limited
Homecare Underwriting Agency Limited
Lifestyle Household Underwriting Agency Limited*
MIA General Insurance Service Managers Limited
Thatch Underwriting Agencies Limited
Towergate Administration Facilities Limited
Towergate Chapman Stevens Limited
Towergate Chase Parkinson Limited
Towergate Commercial Property Underwriting Limited
Towergate Commercial Underwriting Limited
Towergate Holiday Homes Underwriting Agency Limited*
Towergate Intermediary Support Limited
Towergate Legal & Professional Underwriting Limited
Towergate Leisure Underwriting Limited
Towergate Life & Investments Limited
Towergate Marine Underwriting Limited
Towergate Programmes Limited
Towergate Sharp Insurance Brokers Limited*
Towergate Strovers Limited*
Towergate Underwriting Group Limited*
Towergate Underwriting Limited
Towergate Wilsons Limited