

HASTINGS INSURANCE SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS 1999



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HASTINGS INSURANCE SERVICES LIMITED

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HASTINGS INSURANCE SERVICES LIMITED

Directors

P O Sheridan - Chairman
G D Gundlach - Managing Director
H Okazaki
Y Yamazaki - M Harada (Alternate)
R G McKibbin
K Oda
D J Titterington

Secretary

R G McKibbin ACII

Auditors

Ernst & Young

Principal Office

Conquest House, Collington Avenue, Bexhill-on-Sea, East Sussex TN39 3LW
Tel : 01424 735735 Fax : 01424 735730

Registered Office

Rose Lane Business Centre, Rose Lane, Norwich NR1 1JY
Registered Number 3116518

Ultimate Holding Company

The Chiyoda Fire and Marine Insurance Company Limited,
No 28-1, Ebisu 1-chome, Shibuya-ku, Tokyo 150, Japan.
Tel : 00 813 5424 1001 Fax : 00 813 5424 9382

HASTINGS INSURANCE SERVICES LIMITED

REPORT OF THE DIRECTORS

The Directors submit their Report and Accounts of the Company for the year ended 31st December 1999.

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of insurance services.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

There have been no significant changes in the activities of the Company during the year.

Turnover has increased to £16,817,678 (1998 - £10,355,113).

RESULTS FOR THE YEAR

The profit for the year after taxation amounted to £796,519 (1998 - £381,472), which has been transferred to reserves.

The Directors do not recommend the payment of a dividend.

DIRECTORS

The names of the Directors at the date of this Report appear on page 2.

According to the register kept for the purposes of the Companies Act 1985, no Director has any beneficial interest in the shares of the Company.

EMPLOYEES

The Directors recognise that staff should be kept informed, so far as practicable, on matters of interest and concern to them as employees. Their views are sought and taken into account in making decisions which affect them. Information is conveyed through meetings and the distribution of circulars.

The Company is very conscious of the difficulties experienced by people with disabilities. Its attitude to the employment of disabled persons is the same as that relating to all other staff in matters of recruitment, continuity of employment, training, development and promotion, and it will take sympathetic account of individual circumstances.

HASTINGS INSURANCE SERVICES LIMITED

YEAR 2000

Prior to 31 December 1999, steps were taken to review computer and date dependent systems critical to the Company's ongoing operations and preparation of financial information to establish the impact, if any, which the Year 2000 might have on the accuracy of their calculations, processing and reporting. Although it is not possible to guarantee that no Year 2000 problems remain, the Company believes that its internal systems are Year 2000 compliant.

The Company continues to address the business risk from third parties with whom it deals on business and financial matters, including key customers and suppliers. Contingency plans have been developed to minimise the risk of disruption. No significant disruption has occurred to date.

Although the millennium date change has passed and no significant problems have been encountered, the directors recognise that there is still a risk of Year 2000 impacting the business, but do not expect this to be significant.

PAYMENT POLICY

It is the Company's policy in respect of its suppliers:

- (a) to settle terms of payment with those suppliers when agreeing the terms of each transaction
- (b) to ensure that those suppliers are made aware of the terms of payment
- (c) to abide by the terms of payment.

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution will be submitted at the Annual General Meeting proposing their re-appointment and authorising the Directors to fix their remuneration.

DONATIONS

The company made donations of £8,053 (1998 - £10,000) for charitable purposes. No donations were made to political organisations.

By Order of the Board



R.G. McKibbin

Secretary

22nd March 2000

HASTINGS INSURANCE SERVICES LIMITED

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company Law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company for that period. In preparing those accounts 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 accounts;
- prepare accounts on the going concern basis until 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 enable them to ensure that the accounts comply with the Companies Act of 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention of fraud and other irregularities.

HASTINGS INSURANCE SERVICES LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF HASTINGS INSURANCE SERVICES LIMITED

We have audited the accounts on pages 7 to 19, which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 5, the Company's Directors are responsible for the preparation of accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

BASIS OF OPINION

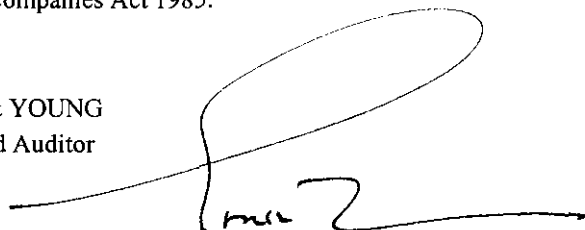
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG
Registered Auditor
Norwich

A large, stylized handwritten signature in black ink, likely belonging to a member of the Ernst & Young audit team.

22 March 2000

HASTINGS INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1999

	Notes	1999 £	1998 £
Turnover	1(b)	16,817,678	10,355,113
Other operating income		10	246,933
Administrative expenses		<u>(15,378,338)</u>	<u>(9,673,614)</u>
OPERATING PROFIT		1,439,350	928,432
Interest payable and similar charges	6	<u>(217,223)</u>	<u>(263,465)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	1,222,127	664,967
Taxation	7	<u>(425,608)</u>	<u>(283,495)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>796,519</u>	<u>381,472</u>
STATEMENT OF RETAINED PROFITS			
Balance brought forward		19,831	(361,641)
Balance for the year	9	<u>796,519</u>	<u>381,472</u>
RETAINED PROFITS CARRIED FORWARD		<u>816,350</u>	<u>19,831</u>

There are no recognised gains or losses other than the profit for the year.

The notes on pages 10 to 19 form an integral part of these accounts.

HASTINGS INSURANCE SERVICES LIMITED

BALANCE SHEET

as at 31 December 1999

	Notes	1999 £	1998 £
FIXED ASSETS			
Tangible assets	10	3,978,932	3,542,975
CURRENT ASSETS			
Debtors	11	13,644,479	9,322,473
Cash at bank and in hand		2,428,133	347,394
		<u>16,072,612</u>	<u>9,669,867</u>
CREDITORS: Amounts falling due within one year	12	(17,564,035)	(12,118,612)
NET CURRENT LIABILITIES		<u>(1,491,423)</u>	<u>(2,448,745)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,487,509	1,094,230
CREDITORS: Amounts falling due after more than one year	13	(581,358)	(495,650)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(1,084,801)	(573,749)
		<u> </u>	<u> </u>
NET ASSETS		<u><u>821,350</u></u>	<u><u>24,831</u></u>
CAPITAL AND RESERVES			
Share Capital	15	5,000	5,000
Profit and loss account		<u>816,350</u>	<u>19,831</u>
SHAREHOLDERS' FUNDS (including non-equity interests)		<u><u>821,350</u></u>	<u><u>24,831</u></u>

Approved by the Board of Directors and signed on its behalf

Director 
22nd March 2000


Director

The notes on pages 10 to 19 form an integral part of these accounts.

HASTINGS INSURANCE SERVICES LIMITED

CASH FLOW STATEMENT

for the year ended 31 December 1999

	Notes	1999 £	1998 £
Net cash inflow from operating activities	2	3,449,726	1,119,364
Returns on investments and servicing of finance			
Interest paid	6	(217,223)	(263,465)
		<u>(217,223)</u>	<u>(263,465)</u>
Taxation			
Group relief in respect of Corporation tax		(255,038)	164,340
		<u>(255,038)</u>	<u>164,340</u>
Capital expenditure & financial investments			
Purchase of tangible fixed assets		(798,123)	(386,081)
Sales of tangible fixed assets		-	2,400
		<u>(798,123)</u>	<u>(383,681)</u>
Net cash inflow		2,179,341	636,558
Financing			
Capital element of finance lease rental repayments	16	(1,617,477)	(871,891)
		<u>(1,617,477)</u>	<u>(871,891)</u>
Increase / (Decrease) in cash		<u>561,864</u>	<u>(235,333)</u>

HASTINGS INSURANCE SERVICES LIMITED

NOTES TO THE ACCOUNTS

1. Statement of accounting policies

(a) Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts have been prepared under the going concern concept because the parent undertaking has agreed to provide adequate funds for the Company to meet its liabilities as they fall due.

(b) Turnover

Turnover comprises commission in respect of insurance policies together with finance charges received in respect of premiums payable by instalments. Commission is not recognised until the relevant policy comes in to force. Full provision has been made for commission repayable to insurance companies in the event of policy cancellation. All turnover relates to business written in the UK.

(c) Tangible fixed assets

Tangible fixed assets are depreciated on a straight line basis over their useful economic lives and are stated in the balance sheet at cost less accumulated depreciation. All fixed assets are depreciated over 4 years.

(d) Deferred tax

Deferred taxation is provided for using the liability method to the extent that it is likely to crystallise in the foreseeable future.

(e) Leasing commitments

Assets held under finance leases are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under the leases is included within liabilities in the balance sheet.

Rentals payable under operating leases and the interest element of obligations under finance leases are charged to income on a straight line basis over the term of the lease.

HASTINGS INSURANCE SERVICES LIMITED

(f) Pensions

Some employees participate in a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

(g) Government grants

Revenue grants received and receivable are credited to income so as to match them to the expenditure to which they relate.

(h) Insurance debtors and creditors

The Company acts as an agent in broking the insurable risks of its clients and, generally, is not liable as a principal for premiums due to underwriters or for claims payable to clients.

Notwithstanding the company's legal relationship with clients and underwriters and since in practice premium and claim moneys are usually accounted for by insurance intermediaries, it has followed generally accepted accounting practice by showing debtors and creditors relating to insurance business as assets and liabilities of the company itself.

2. Profit on ordinary activities before taxation

a) The profit on ordinary activities before taxation is stated after charging / (crediting) :-

	1999	1998
	£	£
Audit fee	14,200	16,800
Fees for non-audit services	-	1,000
Depreciation	1,624,931	1,179,416
Operating lease rentals - land and buildings	130,000	97,500
Government grants received / receivable	-	(195,000)

Depreciation in respect of assets held under finance leases amounted to £1,070,257

(1998 - £712,636)

b) Reconciliation of operating profit to net cash inflow from operating activities :-

	1999	1998
	£	£
Operating profit	1,439,350	928,432
Depreciation charges	1,624,931	1,179,416
Loss on sale of tangible fixed assets	33,018	-
(Increase) in debtors	(4,322,005)	(1,658,278)
Increase in creditors	4,674,432	669,794
Cash inflow from operating activities	3,449,726	1,119,364

HASTINGS INSURANCE SERVICES LIMITED

3. Reconciliation of movement in shareholders' funds

	1999	1998
	£	£
Opening shareholders' funds	24,831	(356,641)
Balance for the year	796,519	381,472
Closing shareholders' funds	<u>821,350</u>	<u>24,831</u>
Shareholders' funds		
Equity interest	820,100	23,581
Non-equity interest	1,250	1,250
	<u>821,350</u>	<u>24,831</u>

4. Directors' Emoluments

The emoluments of the Directors for the year were as follows:

	1999	1998
	£	£
Emoluments	668,054	158,436

Negotiations with a former director of the company regarding compensation for loss of office have been resolved. An amount of £500,000 has been included within directors' emoluments in respect of this issue.

5. Staff Costs

Staff costs were as follows :-

	1999	1998
	£	£
Salaries	4,608,915	3,073,200
Social security costs	316,323	231,254
Pension costs	34,933	35,069
	<u>4,960,171</u>	<u>3,339,523</u>
The average number of persons employed during the year was :-		
Sales and Customer Services	284	205
Claims	52	27
Administration	95	67
	<u>431</u>	<u>299</u>

The total number of employees as at 31st December 1999 was 510 (1998 - 367).

HASTINGS INSURANCE SERVICES LIMITED

6. Interest Payable

Interest payable comprises :	1999	1998
	£	£
Interest on loan from holding company	23,630	123,457
Finance charges payable under finance leases	193,593	140,008
	<u>217,223</u>	<u>263,465</u>

7. Tax on profit on ordinary activities

	1999	1998
	£	£
Group relief	428,142	255,038
Deferred tax	(2,534)	(51,019)
Adjustment for under provision in prior years	-	79,476
	<u>425,608</u>	<u>283,495</u>

It is assumed that losses available within the accounts of the immediate holding company will be sufficient to allow full group relief of the tax charge in respect of the Company, and that the charge will be paid within the next year.

8. Deferred Taxation

	£
Brought forward as at 1st January 1999	3,710
Movement in the year	<u>2,534</u>
Carried forward as at 31st December 1999	<u>6,244</u>
Deferred tax asset comprises:	1999
	£
Capital allowances in arrears of depreciation	<u>6,244</u>

There is no unprovided deferred taxation.

9. Movements on reserves

	Share Capital	Profit and Loss Account	Total Shareholders' Funds
	£	£	£
Brought forward as at 1st January 1999	5,000	19,831	24,831
Profit for the year	-	796,519	796,519
Carried forward as at 31st December 1999	<u>5,000</u>	<u>816,350</u>	<u>821,350</u>

HASTINGS INSURANCE SERVICES LIMITED

10. **Fixed Assets**

	Fixtures and Fittings £	Computer Equipment £	Motor Vehicles £	Leasehold Improvements £	Total £
Cost :					
As at 1 January 1999	579,649	3,923,599	13,000	931,640	5,447,888
Purchases in the year	520,641	1,326,256	20,006	227,003	2,093,906
Disposals	(19,424)	(90,511)	-	-	(109,935)
As at 31 December 1999	1,080,866	5,159,344	33,006	1,158,643	7,431,859
Depreciation :					
As at 1 January 1999	151,392	1,418,393	542	334,586	1,904,913
Charge for the year	202,825	1,081,039	5,563	335,504	1,624,931
Disposals	(12,204)	(64,713)	-	-	(76,917)
As at 31 December 1999	342,013	2,434,719	6,105	670,090	3,452,927
Net book value :					
As at 31 December 1999	738,853	2,724,625	26,901	488,553	3,978,932
At 31 December 1998	428,257	2,505,206	12,458	597,054	3,542,975

The net book value of computer equipment above includes £2,561,821 (1998 - £2,398,847) in respect of assets held under finance leases.

11. **Debtors**

Debtors comprises :-

	1999 £	1998 £
Trade debtors	10,758,915	6,861,972
Amounts owed by Chiyoda Fire & Marine (Europe) Limited	2,367,891	1,757,466
Other debtors	84,791	388,312
Prepayments and accrued income	432,881	314,723
	13,644,478	9,322,473

HASTINGS INSURANCE SERVICES LIMITED

12. Creditors : amounts falling due within one year

Creditors comprises :-

	1999	1998
	£	£
Trade creditors	1,804,497	842,355
Obligations under finance leases (see note 16)	1,238,749	1,646,151
Bank overdraft	2,528,653	1,009,778
Amounts owed to Chiyoda Fire & Marine (Europe) Limited	10,039,546	7,632,632
Accruals and deferred income	1,844,027	897,560
Other creditors including taxes and social security	108,563	90,136
	<u>17,564,035</u>	<u>12,118,612</u>

13. Creditors : amounts falling due after more than one year

	1999	1998
	£	£
Obligations under finance leases (see note 16)	<u>581,358</u>	<u>495,650</u>

14. Provisions for Liabilities and Charges

	Claims handling provision	Cancellation Provision	Total
	£	£	£
At 1 January 1999	231,192	342,557	573,749
Arising during the year	447,655	597,858	1,045,513
Utilised	(191,904)	(342,557)	(534,461)
At 31 December 1999	<u>486,943</u>	<u>597,858</u>	<u>1,084,801</u>

The claims handling provision relates to the estimated remaining costs of administration in respect of claims outstanding at the balance sheet date, whether notified or not.

The cancellation provision relates to anticipated commission refunds in respect of policies cancelled after 31 December 1999, which were incepted or renewed during the year.

HASTINGS INSURANCE SERVICES LIMITED

15. Share Capital

	£
Authorised, allotted, called up and fully paid share capital	
A Ordinary shares of £1 each	3,750
B Ordinary shares of £1 each	625
C Ordinary shares of £1 each	625
	<u>625</u>
	<u>5,000</u>

The holders of the A Ordinary shares are entitled to participate in the distributable profits of the Company and are thus entitled to any dividends declared. The holders of B and C Ordinary shares have no entitlement to participate in any distributable profits. A, B and C shares carry one vote per member with B and C shareholders acting together as one member.

16. Financial commitments

Finance leases

Amounts payable in respect of finance leases are as follows :

	1999 £	1998 £
Amounts payable within one year	1,381,658	1,802,336
In two to five years	664,528	595,184
	<u>2,046,186</u>	<u>2,397,520</u>
Less : finance charges allocated to future periods	226,079	255,719
	<u>1,820,107</u>	<u>2,141,801</u>

Finance lease obligations are analysed as follows:

Current obligations (see note 12)	1,238,749	1,646,151
Non-current obligations (see note 13)	581,358	495,650
	<u>1,820,107</u>	<u>2,141,801</u>

Analysis of changes in finance leases during the year:

Balance at 1 January 1999	2,141,801
Inception of finance lease contracts	1,295,783
Capital element of finance lease payments	<u>1,617,477</u>
Balance at 31 December 1999	<u>1,820,107</u>

Finance leases entered into after the balance sheet date in respect of computer equipment amount to £66,958 (1998 - £94,242).

HASTINGS INSURANCE SERVICES LIMITED

Other commitments / contingencies

The Company has entered into an operating lease with the holding company in respect of property. The annual commitments under this lease which expires in five years or more, follow a pattern which reflects the benefit derived by the Company in respect of the use of the property. The total payable during the following year is £162,500 (1998 - £130,000).

Grants received may be repayable to the Government if the Company fails to sustain the required level of employment positions for 3 years after the final payment of grant was received. The final grant application was received in February 1999. Grants totalling £970,000 have been received to date.

A long-term incentive scheme exists, which had no value at the balance sheet date. The value of the scheme is linked to the underlying value of the Company, with benefits arising between 2000 and April 2002, when the scheme is due to terminate.

17. Cash flow Analysis of net debt

	1 January 1999 £	Cash flow £	Other non- cash movements £	31 December 1999 £
Cash at bank and in hand	347,394	2,080,739	-	2,428,133
Bank overdrafts	(1,009,778)	(1,518,875)	-	(2,528,653)
	(662,384)	561,864	-	(100,520)
Finance leases	(2,141,801)	(1,617,477)	1,939,171	(1,820,107)
	(2,804,185)	(1,055,613)	1,939,171	(1,920,627)

Reconciliation of net cash flow to movement in debt

	1999 £	1998 £
Increase / (Decrease) in cash in the period	561,864	(235,333)
Finance leases	321,694	(442,000)
Movement in net debt in the period	883,558	(677,333)
Net debt at beginning of period	(2,804,185)	(2,126,852)
Net debt at end of period	(1,920,627)	(2,804,185)

HASTINGS INSURANCE SERVICES LIMITED

18. Related party transactions

For the purpose of these accounts the holding company, the Chiyoda Fire and Marine Insurance Company (Europe) Limited and the minority shareholder, Logan Consultants Limited have been treated as related parties.

During the year the Company paid £130,000 (1998 - £97,500) under an operating lease in respect of property. Annual commitments under this lease are disclosed in note 16. Balances due to and from the holding company are disclosed in notes 11 and 12.

Related party income / (expenditure) during the year was as follows :-

	1999	1998
	£	£
Insurance commissions receivable	10,301,385	6,277,504
Management charges	(65,000)	(65,000)
Lease rentals	(130,000)	(97,500)
Interest payable on loan from holding company	(23,630)	(123,457)

19. Fixed and floating charge

A fixed and floating charge exists over all assets of the Company for securing all monies due or becoming due to the immediate holding company.

20. Subsidiary undertakings

Investments in subsidiary undertakings as at 31st December 1999 were as follows :-

	Shareholding % Class	Principal Activity
Hastings Direct Limited	100% Ordinary	Dormant
1st Advantage Insurance Services Limited	100% Ordinary	Dormant

All investments in subsidiary companies are held directly by the Company.

HASTINGS INSURANCE SERVICES LIMITED

21. Holding Company

The immediate holding company is The Chiyoda Fire and Marine Insurance Company (Europe) Limited, which is incorporated in England and Wales. It has included the Company in its group accounts, copies of which are available from its registered office, Rose Lane Business Centre, Rose Lane, Norwich NR1 1JY. The ultimate holding company is The Chiyoda Fire & Marine Insurance Company Limited which is incorporated in Japan. The address of the ultimate holding company is shown on page 2 of these accounts.

22. Consolidated Accounts

The Company is exempt from preparing consolidated group accounts by virtue of Section 228 of the Companies Act 1985. Its results are included in the financial statements of its parent undertaking, The Chiyoda Fire and Marine Insurance Company (Europe) Limited.