

PRIMARY GROUP SERVICES LIMITED

**Report and Financial Statements
for the year ended 31 December 2002**



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Company Registration No. 3194221

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General Information

Directors

The directors at the date of this report were as follows:

Mr M H King
Mr A N M McMahon
MS T E Keill
Mr J A Hodes

Secretary

The company secretary is Mr A N M McMahon

Principal Bankers

The Royal Bank of Scotland plc
62/63 Threadneedle Street
London EC2R 8LA

Barclays Bank plc
54 Lombard Street
London EC3V 9EX

Auditors

Mazars
24 Bevis Marks
London EC3A 7NR

Tax Advisors

Rawlinson & Hunter
Eagle House
110 Jermyn Street
London SW1Y 6RH

Principal Lawyers

Taylor Wessing
Carmelite
50 Victoria Embankment
Blackfriars
London EC4Y 0DX

Registered Office

80 Leadenhall Street
London EC3N 3AE

Company Registration Number

3194221

Parent Company

The immediate parent company is Primary Group (UK) Limited and the ultimate parent company is Primary Group Limited.

Directors' Report

The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2002.

Results and dividend

Turnover was £16,126,504 (2001: £6,262,228) and the profit attributable to shareholders for the company for the year ended 31 December 2002 was £296,792 (2001: loss £80,492) after a tax credit of £144,044 (2001: expense £793,698). The directors do not recommend the payment of a dividend for the year ended 31 December 2002 (2001: £ Nil).

Review of developments

Principal activities and future developments

The company's principal activities are the provision of management and administrative services to other companies in the group and this is expected to continue. Services are also offered to unrelated businesses where the directors believe such activities benefit the company or group.

Tangible fixed assets

Movements in the tangible fixed assets held by the company are shown in Note 7.

Charitable donations

During the year the company made charitable donations of £Nil (2001: £2,835).

Directors and directors' interests

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

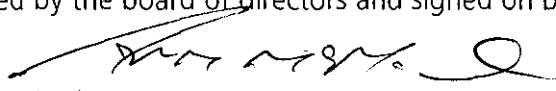
Mr M H King	
Mr M V Newell	Resigned 31 October 2002
Mr A N M McMahon	
Mr J B Bibby	Resigned 14 April 2003
Mr J A Hodes	Appointed 30 October 2002
Ms T E Keill	Appointed 16 December 2002

No director had a direct interest in the share capital of the company during the year. The directors' interests in the share capital of other group companies are shown in the directors' report of the parent company's financial statements.

Auditors

A resolution to re-appoint Mazars as auditors will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on behalf of the board.


A N M McMahon
Director

25 July 2003

**Independent Auditors' Report to the Members of
Primary Group Services Limited**

We have audited the financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, the Balance Sheet and related notes. These financial statements have been prepared under the historical cost convention and 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

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

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

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



Mazars

Chartered Accountants and Registered Auditors

24 Bevis Marks

London EC3A 7NR

28 July 2003

Profit and Loss Account
for the year ended 31 December 2002

	Note	2002 £	2001 £
Turnover	3	16,126,504	6,262,228
Management and other operating charges		<u>(16,005,908)</u>	<u>(5,575,765)</u>
Operating profit	4	120,596	686,463
Interest receivable		32,152	26,743
		<u>152,748</u>	<u>713,206</u>
Profit on ordinary activities before taxation		152,748	713,206
Tax on profit on ordinary activities	6	<u>144,044</u>	<u>(793,698)</u>
Profit / (loss) on ordinary activities after taxation		<u>296,792</u>	<u>(80,492)</u>
Retained profit / (loss) for the financial period	11	<u>296,792</u>	<u>(80,492)</u>

All activities derive from continuing operations. There are no recognised gains or losses, other than those reflected in the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.

The notes to the accounts on pages 6 to 13 form an integral part of these financial statements.

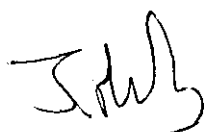
Balance Sheet
as at 31 December 2002

	Note	2002 £	2001 £
Fixed assets			
Tangible assets	7	<u>945,840</u>	<u>518,498</u>
Current assets			
Debtors: due within one year	8	5,570,205	4,140,941
Debtors: due after one year	8	1,968,896	-
Cash at bank and in hand		<u>419,368</u>	<u>-</u>
		7,958,469	4,140,941
Creditors: (amounts falling due within one year)	9	<u>(8,558,138)</u>	<u>(4,610,060)</u>
Net current liabilities		<u>(599,669)</u>	<u>(469,119)</u>
		<u>346,171</u>	<u>49,379</u>
Capital and reserves			
Called up share capital	10	1,000	1,000
Profit and loss account	11	<u>345,171</u>	<u>48,379</u>
	12	<u>346,171</u>	<u>49,379</u>

The notes to the accounts on pages 6 to 13 form an integral part of these financial statements.

The board of directors approved these financial statements on 25 July 2003

Signed on behalf of the board of directors.



J A Hodes
Director

25 July 2003

**Notes to the financial statements
for the year ended 31 December 2002****1. 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 of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- 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 that 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

2. Accounting policies

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Basis of accounting

The financial statements are prepared under the historical cost convention of accounting.

Turnover

Turnover comprises net commissions that are recognised when the debit note is raised together with recharges of expenses to group undertakings and fees for administrative and support services.

Depreciation

Tangible fixed assets, including assets held under finance leases and hire purchase contracts, are written off on a straight line basis over their estimated useful lives (Note 7).

Foreign currencies

Monetary assets and liabilities in foreign currencies are expressed in sterling at exchange rates ruling at the balance sheet date. Income and expenses in foreign currencies are translated into sterling at either rates of exchange ruling at the date on which the transactions occur or at a fixed rate and translated at the year end to reflect an average rate. Any exchange differences arising on transactions in foreign currencies during the year are dealt with through the profit and loss account.

**Notes to the financial statements
for the year ended 31 December 2002****2. Accounting policies (continued)****Deferred taxation**

The charge for taxation is based on the profits for the year charged at the current rates of tax. In the current year the company implemented FRS 19 "Deferred Tax" with no material adjustment being required. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed out by the balance sheet date except as otherwise required by FRS 19. Deferred tax assets are recognised to the extent that the directors consider these amounts receivable.

Cash flow statement

The company is a wholly owned subsidiary of Primary Group (UK) Limited, which prepares a consolidated cash flow statement. The company has therefore elected to make use of the exemption provided in Financial Reporting Standard No. 1 ("Cash Flow Statements") not to produce a cash flow statement.

Finance leases and hire purchase contracts

Assets held under finance leases and hire purchase contracts and their related obligations are included at the fair value of those assets at the inception of the leases or hire purchase contracts.

Rentals payable are apportioned between the finance charge and a reduction of the outstanding obligation for future amounts payable so that the charge for each accounting year is a constant percentage of the remaining balance of the capital sum outstanding.

Operating leases

Rentals payable under operating leases are charged on a straight-line basis over the term of the lease.

Pensions

The group operates non-contributory defined contribution grouped personal pension plans covering the majority of permanent employees where subsidiaries have elected to participate. The assets of the plans are held separately from those of the group in independently administered funds for individual members of staff. The plans are funded by contributions that are charged to profit and loss account as incurred in accordance with the employment contract of each director or employee.

3. Turnover

Turnover for the year originated from recharges to other group entities.

**Notes to the financial statements
for the year ended 31 December 2002**

4. Operating profit

	2002	2001
	£	£
The operating profit which originated in the United Kingdom for the year was arrived at after charging:		
Accountancy fees - audit	164,244	69,583
Accountancy fees - non-audit services	-	17,099
Depreciation of owned assets	187,982	42,232
Fees receivable from group undertakings	(1,844,602)	(58,268)
Loss on disposal of fixed assets	316	18,850
	<u> </u>	<u> </u>

5. Information regarding directors and employees

The aggregate emoluments of the directors of the company for the year ended 31 December 2002, were as follows:

	2002	2001
	£	£
Emoluments including performance related bonus	719,806	769,108
Contributions to money purchase pension schemes	41,159	41,067
	<u> </u>	<u> </u>
Total emoluments	760,965	810,175
	<u> </u>	<u> </u>

The emoluments of the highest paid director included in the amount above are:

Emoluments including performance related bonus	308,526	357,079
Pension	8,917	9,125
	<u> </u>	<u> </u>
Total emoluments	317,443	366,204
	<u> </u>	<u> </u>

	2002	2001
	£	£
Staff costs		
Wages and salaries	1,574,764	1,236,837
Social security costs	173,289	143,492
Other pension costs	131,183	78,304
	<u> </u>	<u> </u>
	1,879,236	1,458,633
	<u> </u>	<u> </u>

During the year, all staff costs for the group were paid by Primary Group Services Limited. The above information is an allocation of staff costs relating to Primary Group Services Limited the company.

**Notes to the financial statements
for the year ended 31 December 2002**

5. Information regarding directors and employees (continued)

	2002 No.	2001 No.
The average number of persons, including executive directors employed by the company during the year was:	<u>18</u>	<u>79</u>
The number of directors for the benefit of whom the company made contributions to money purchase pension schemes during the year was:	<u>5</u>	<u>5</u>

6. Taxation

(a) Analysis of charge in year

	2002 £	2001 £
Based on profit for the year at 30% (2001: 30%)	-	241,415
Adjustments in respect of prior periods	(144,044)	296,308
Taxation relating to other group companies in liquidation	-	255,975
	<u>(144,044)</u>	<u>793,698</u>

(b) Factors affecting tax charge for the year

	2002 £	2001 £
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%)		
The differences are explained below:		
Profit on ordinary activities before tax	<u>152,748</u>	<u>713,206</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001:30%)	45,824	213,962
<i>Effects of:</i>		
Expenses not deductible for tax purposes	125,205	90,521
Intragroup loans written off not deductible	20,991	-
Capital allowances in excess of depreciation	(29,164)	(6,037)
Group relief surrendered without payment	(162,856)	-
Provisions credited to the profit and loss account not taxable	-	(57,031)
	<u>-</u>	<u>241,415</u>
Adjustment to tax in respect of prior periods	(144,044)	296,308
Taxation relating to other group companies in liquidation	-	255,975
	<u>(144,044)</u>	<u>793,698</u>

**Notes to the financial statements
for the year ended 31 December 2002**

7. Tangible fixed assets

	Furniture, fittings & equipment £	Motor Vehicles £	Total £
Cost			
At 1 January 2002	980,033	13,446	993,479
Additions during the year	611,400	12,979	624,379
Disposals during the year	(4,713)	(4,750)	(9,463)
At 31 December 2002	<u>1,586,720</u>	<u>21,675</u>	<u>1,608,395</u>
Depreciation			
At 1 January 2002	463,404	11,577	474,981
Charge for the year	184,270	3,712	187,982
Depreciation on disposals in the year	(408)	-	(408)
At 31 December 2002	<u>647,266</u>	<u>15,289</u>	<u>662,555</u>
Net book value			
At 31 December 2002	<u>939,454</u>	<u>6,386</u>	<u>945,840</u>
At 31 December 2001	<u>516,629</u>	<u>1,869</u>	<u>518,498</u>
Depreciation rate	20/25%	20/25%	20/25%

8. Debtors

	2002 £	2001 £
Amounts due within one year		
Amounts due from group undertakings	4,003,843	3,598,714
Other debtors	960,381	324,340
Prepayments and accrued income	475,229	217,887
Corporation tax receivable	130,752	-
	<u>5,570,205</u>	<u>4,140,941</u>
Amounts due after more than one year		
Amounts due from group undertakings	<u>1,968,896</u>	<u>-</u>

**Notes to the financial statements
for the year ended 31 December 2002**

9. Creditors: amounts falling due within one year

	2002	2001
	£	£
Bank Overdraft	-	296,262
Amounts owed to group undertakings	6,692,352	3,122,756
Corporation tax	-	290,883
Other taxation and social security	281,329	150,616
Other Creditors	28,330	70,423
Accruals and deferred income	1,556,127	679,120
	<u>8,558,138</u>	<u>4,610,060</u>

10. Called up share capital

	2002	2001
	£	£
Authorised:		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, issued & fully paid:		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

11. Statement of movements on reserves

	2002	2001
	£	£
At the start of the year	48,379	128,871
Profit / (loss) for the financial year	296,792	(80,492)
	<u>345,171</u>	<u>48,379</u>
At 31 December		

12. Reconciliation of movements in shareholders' funds

	2002	2001
	£	£
At the start of the year	49,379	129,871
Retained profit / (loss) for the financial year	296,792	(80,492)
	<u>346,171</u>	<u>49,379</u>
At 31 December		

**Notes to the financial statements
for the year ended 31 December 2002****13. Pension commitments**

The group operates non-contributory defined contribution grouped personal pension plans. The assets of the plans are held separately from those of the group in independently administered funds. The pension cost charge represents contributions payable by the group to the plans and the amount contributed during the year to 31 December 2002 was £131,183 (2001: £233,501).

14. Contingent Liabilities

The corporation tax for Primary Group Services Limited for the year 1999 is currently under review by the Inland Revenue and the corporation tax for those years and subsequent years have yet to be agreed.

There may be a potential liability for additional taxation but the amount cannot be quantified at present. In the opinion of the directors any additional liability arising is unlikely to be material.

15. Related party transactions

As permitted under FRS 8, transactions between group companies which are owned and controlled by more than 90% of the voting rights have not been disclosed.

The ultimate parent company Primary Group Limited has a 51% interest in Primary Risk Holdings Limited, of which Primary Reinsurance Company Limited and Primary Insurance Company Limited are wholly owned subsidiaries. The company provides administrative and support services to these companies and during the year received £452,999 (2001: £201,596) and £28,803 (2001: £Nil) respectively from these companies. At 31 December 2002 the amount owed by Primary Reinsurance Co Limited was £Nil (2001: £361,977), and Primary Insurance Company Limited £Nil (2001: Nil).

Primary Insurance Group Limited is an 83% subsidiary of the parent company, Primary Group (UK) Limited. During the year, Primary Direct Limited, became a wholly owned subsidiary of Primary Insurance Group Limited, and received administrative and support services from the company paying £2,104,753 for these services. At 31 December the amount owed by Primary Direct Limited was £971,454.

During the year Primary Underwriting Limited became a wholly owned subsidiary of Primary Insurance Group Limited and received administrative and support services from the company, paying £1,662,481 for these services. At 31 December the amount owed by Primary Underwriting Limited was £319,248.

Primary Underwriting Management Limited, a wholly owned subsidiary of Primary Insurance Group Limited, received administrative and support services from the company, paying £277,859. At 31 December the amount owed by Primary Underwriting Management Limited was £227,474.

**Notes to the financial statements
for the year ended 31 December 2002**

16. Ultimate holding company

The immediate holding company as at 31 December 2002 is Primary Group (UK) Limited, a company incorporated in the United Kingdom.

The ultimate holding company was Primary Group Limited, a company incorporated in Bermuda. In the opinion of the directors, the ultimate controllers at this date are the trustees of NUSA Trust and JIWO Trust, both trust companies being incorporated in the Cayman Islands.