

PRIMARY DIRECT LIMITED

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



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Company Registration No. 3487744

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General Information**Directors**

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

Mr M H King	Mr S Leatherby
Mr J B Bibby	Mr A N M McMahon

Secretary

The company secretary is Mr A N M McMahon

Principal Bankers

National Westminster Bank plc
9 Cogots Bank Road
Urmston
Manchester M41 0NW

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

5 Lloyd's Avenue
London EC3N 3AE

Company Registration Number

3487744

Parent Company

The immediate parent is Primary Insurance Group 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 £2,341,489 (2001: £1,868,570) and the loss attributable to shareholders for the company for the year ended 31 December 2002 was £633,077 (2001: £55,069) after a tax credit of £Nil (2001: £38,665). The directors do not recommend the payment of a dividend for the year ended 31 December 2002 (2001: £Nil).

Review of developments

Principal activities

The company's principal activities are the sale and administration of insurance products direct to the public.

All members of the Primary Group operate in a devolved structure designed to motivate the management teams of each business to act with ownership, accountability and entrepreneurial spirit. Decisions are measured through the reporting and control process in what is known as our 'Trust and Verify' framework. As a consequence, businesses within the Primary Group may trade together where it is in their commercial interest and this decision is for each management team to make. This means that the Primary Group's businesses will, through the normal course of business, trade together on an independent arm's length basis. These transactions have not therefore been disclosed in the related party note.

Future developments

The directors aim to enhance existing product offerings and to develop new business opportunities with other like-minded professional organisations.

Tangible fixed assets

Movements in the tangible fixed assets held by the company are shown in Note 9.

Charitable donations

During the year the company made charitable donations of £Nil (2001: £50).

Directors and directors' interests

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

Mr T A Berry	Resigned 30 April 2003
Ms H M Dwyer	Resigned 30 April 2003
Mr M H King	
Mr J B Bibby	Appointed 16 December 2002
Mr A N M McMahon	Appointed 16 December 2002
Mr S Leatherby	

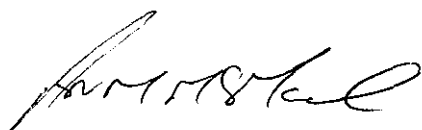
Directors' Report (continued)**Directors and directors' interests (continued)**

No directors held any shares in 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

Baker Tilly resigned as auditors on 12 February 2003 and Mazars were appointed. Mazars have signified their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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



A M N McMahon
Director
23 July 2003

Independent Auditors' Report to the Members of Primary Direct 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 loss for the year 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	2,341,489	1,868,570
Management and other operating charges		<u>(2,988,261)</u>	<u>(1,953,707)</u>
Operating loss	4	(646,772)	(85,137)
Interest receivable		13,695	-
Interest payable	5	<u>-</u>	<u>(8,597)</u>
Loss on ordinary activities before taxation		(633,077)	(93,734)
Tax on loss on ordinary activities	7	<u>-</u>	<u>38,665</u>
Loss on ordinary activities after taxation		(633,077)	(55,069)
Dividends		<u>-</u>	<u>-</u>
Retained loss for the financial year	15	<u>(633,077)</u>	<u>(55,069)</u>

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

The notes to the accounts on pages 7 to 15 form an integral part of these financial statements.

Balance Sheet
as at 31 December 2002

	Note	2002 £	2001 £
Fixed assets			
Intangible assets	8	614,428	-
Tangible assets	9	<u>112,408</u>	<u>138,732</u>
		726,836	138,732
Current assets			
Debtors	10	359,033	602,026
Cash at bank and in hand	11	<u>560,135</u>	<u>274,937</u>
		919,168	876,963
Creditors: (amounts falling due within one year)	12	<u>(883,847)</u>	<u>(975,233)</u>
Net current assets / (liabilities)		<u>35,321</u>	<u>(98,270)</u>
Total assets less current liabilities		762,157	40,462
Creditors: (amounts falling due after more than one year)	13	<u>(1,354,772)</u>	<u>-</u>
		<u>(592,615)</u>	<u>40,462</u>
Capital and reserves			
Called up share capital	14	1,000	1,000
Profit and loss account	15	<u>(593,615)</u>	<u>39,462</u>
	16	<u>(592,615)</u>	<u>40,462</u>

The notes to the accounts on pages 7 to 15 form an integral part of these financial statements.

The board of directors approved these financial statements on 23 July 2003.

Signed on behalf of the board of directors.



J B Bibby
Director

23 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, and on a going concern basis due to the support of the parent company.

Turnover

Turnover comprises net commissions that are recognised when the policy is issued.

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 9).

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.

Goodwill

Any goodwill arising on acquisition of investments has been stated as an intangible asset and amortised to the profit and loss account over a period of not more than 20 years from the date of acquisition, as recommended by FRS10.

**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.

Insurance debtors and creditors

In the normal course of insurance broking and underwriting, settlement is required to be made with certain markets, market settlement bureaux or insurance intermediaries on the basis of the net settlement due to or from that market, bureau or intermediary in question, rather than the amounts due to or from the individual parties which it represents. Insurance debtors and creditors reflect the gross value of premiums and claims and together with related cash balances, have been included within the assets and liabilities of the company in accordance with current market practice.

Insurance debtors and creditors are reported in accordance with the requirements of Financial Reporting Standard No. 5 'Reporting the Substance of Transactions' (FRS 5). The standard precludes assets and liabilities being offset unless net settlement is legally enforceable and as a result the insurance broking debtors and creditors have been shown as the gross amounts due in respect of each contract, instead of the net amount due to or from clients and underwriters.

Cash flow statement

The company is a 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.

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 the profit and loss account as incurred in accordance with the employment contract of each director or employee.

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

2. Accounting policies (continued)

Investments

Investments held as fixed assets are stated at cost less provisions for any permanent diminution in value.

3. Turnover

Turnover for the year originated and was derived from activities within the United Kingdom.

4. Operating loss

	2002 £	2001 £
The operating loss which originated in the United Kingdom was arrived at after charging:		
Auditors' remuneration	10,600	22,077
Depreciation of owned assets	32,828	34,750
Depreciation of hire purchase/finance lease assets	-	5,221
Loss on disposal of fixed assets	1,639	5,545
Operating lease payments – land & buildings	120,946	120,946

Audit fees were incurred in Primary Group Services and recharged within the administrative and support fees.

5. Interest payable

	2002 £	2001 £
Hire purchase interest	-	8,597

6. 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	174,166	183,106
Contributions to money purchase pension schemes	17,416	4,250
Total emoluments	191,582	187,356

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

6. Information regarding directors and employees (continued)

The emoluments of the highest paid director included in the amount above are:	2002 £	2001 £
Basic salary	87,083	87,615
Performance related bonus	-	-
Pension	8,708	3,542
Other emoluments	-	4,276
Total emoluments	95,791	95,433

The directors received no remuneration from the company. However, an allocation of their remuneration received from the group management company in respect of their services has been included in the above disclosures. This is the usual commercial practice of the group and the company acknowledges its contractual commitment in the recharge of expenses incurred in this way for the benefit of the company.

Staff costs	2002 £	2001 £
Wages and salaries	916,484	759,344
Social security costs	83,202	68,833
Other pension costs	58,707	17,188
	1,058,393	845,365

During the year all staff costs were paid by Primary Group Services, the above information is an allocation of staff costs from the Group which are included within the management recharge.

	2002 No.	2001 No.
The average number of persons, including executive directors employed by the company during the year was:	40	46
The number of directors for the benefit of whom the company made contributions to money purchase pension schemes during the year was:	2	2

7. Taxation

(a) Analysis of charge in year	2002 £	2001 £
Based on (loss) for the year at 30% (2001: 30%)	-	(41,290)
Adjustment in respect of previous periods	-	2,625
Tax payable as at 31 December (note 7(b))	-	(38,665)

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

7. Taxation (continued)

(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:		
Loss on ordinary activities before tax	<u>(633,077)</u>	<u>(93,734)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001:30%)	(189,923)	(28,120)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	14,944	1,293
Capital allowances in excess of depreciation	(2,211)	(19,100)
Group relief surrendered without payment	177,190	4,637
	<u>-</u>	<u>(41,290)</u>
Adjustment to tax in respect of prior periods	-	2,625
Current tax charge / (credit) for the year (note7(a))	<u>-</u>	<u>(38,665)</u>

8. Intangible fixed assets - goodwill

	Goodwill £
Cost	
At 1 January 2002	-
Additions in the year	664,240
At 31 December 2002	<u>664,240</u>
Amortisation	
At 1 January 2002	-
Charge in the year	49,812
At 31 December 2002	<u>49,812</u>
Net book value at 31 December 2002	<u>614,428</u>
Net book value at 31 December 2001	<u>-</u>

Goodwill arose on the cash purchase of a book of business in 2002 and is being amortised over 10 years. In the opinion of the directors, this represents a prudent estimate of the period over which the company will derive economic benefit from the business acquired. Deferred consideration of £381,000 in respect of this purchase is included within creditors due within and after one year (note 12 and 13).

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

9. Tangible fixed assets

	Furniture, fittings & equipment £	Motor vehicles £	Total £
Cost			
At 1 January 2002	223,802	15,300	239,102
Additions during the year	15,693	-	15,693
Disposals during the year	-	(15,300)	(15,300)
At 31 December 2002	239,495	-	239,495
Depreciation			
At 1 January 2002	94,871	5,499	100,370
Charge for the year	32,216	612	32,828
Depreciation on disposals during the year	-	(6,111)	(6,111)
At 31 December 2002	127,087	-	127,087
Net book value			
At 31 December 2002	112,408	-	112,408
At 31 December 2001	128,931	9,801	138,732
Depreciation rate	20/25%	25%	

10. Debtors

	2002 £	2001 £
Insurance debtors	128,171	27,042
Amounts due from group undertakings	128,132	378,043
Other debtors	26,058	95,721
Prepayments and accrued income	11	24,560
Corporation tax receivable	76,660	76,660
	359,033	602,026

All amounts are due within twelve months of the balance sheet date.

11. Cash at bank and in hand

Included in cash at bank and in hand is £555,761 (2001: £253,541) held in designated client and underwriter accounts. These balances are used to pay premiums to underwriters and commissions and other income due to group undertakings.

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

12. Creditors: amounts falling due within one year

	2002 £	2001 £
Insurance creditors	347,800	439,013
Amounts owed to group undertakings	-	324,445
Other creditors	265,938	84,441
Other taxes and social security	-	17,911
Accruals and deferred income	<u>270,109</u>	<u>109,423</u>
	<u>883,847</u>	<u>975,233</u>

Included within insurance creditors are amounts of £347,800 (2001: £417,789) due to group undertakings.

13. Creditors: amounts falling due greater than one year

	2002 £	2001 £
Other creditors	117,195	-
Amounts due to group undertakings	<u>1,237,577</u>	<u>-</u>
	<u>1,354,772</u>	<u>-</u>

14. Called up share capital

	2002 £	2001 £
Authorised:		
30,000 'A' Ordinary shares of 50p each	15,000	15,000
30,000 'B' Ordinary shares of 50p each	<u>15,000</u>	<u>15,000</u>
	<u>30,000</u>	<u>30,000</u>
Allotted, issued & fully paid:		
1,000 'A' Ordinary shares of 50p each	500	500
1,000 'B' Ordinary shares of 50p each	<u>500</u>	<u>500</u>
	<u>1,000</u>	<u>1,000</u>

'A' ordinary shareholders have voting rights but no right to dividends and shall rank equally with the 'B' ordinary shareholders on a distribution on liquidation.

'B' ordinary shareholders do not have voting rights, but will have the sole rights to dividends and shall rank equally with 'A' ordinary shareholders on a distribution on liquidation.

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

15. Statement of movements on reserves

	2002 £	2001 £
At the start of the year	39,462	94,531
Loss for the financial year	<u>(633,077)</u>	<u>(55,069)</u>
At 31 December	<u>(593,615)</u>	<u>39,462</u>

16. Reconciliation of movements in shareholders' funds

	2002 £	2001 £
At the start of the year	40,462	135,531
Retained loss for the financial year	(633,077)	(55,069)
Redemption of shares during the year		
40 'C' Redeemable preference shares of £1,000 each	<u>-</u>	<u>(40,000)</u>
At 31 December	<u>(592,615)</u>	<u>40,462</u>

17. Financial commitments

At 31 December 2002 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 December:

	Land & Buildings 2002 £	Land & Buildings 2001 £
Operating leases which expire:		
Within one year	-	-
Within two to five years	<u>120,946</u>	<u>120,946</u>
Total payable	<u>120,946</u>	<u>120,946</u>

18. 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 company to the plans and the amount contributed by Primary Group Services on behalf of the company was £58,707 (2001: £17,188).

**Notes to the financial statements
for the year ended 31 December 2002****19. Related party disclosures**

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. During 2002, the ownership of Primary Direct Limited was transferred from Primary Group (UK) Ltd to Primary Insurance Group Ltd, an 83% owned subsidiary of Primary Group (UK) Ltd.

During the year Primary Group Services Ltd, a wholly owned subsidiary of Primary Group (UK) Ltd, provided administrative and support services to the company and charged £2,104,754 for these services. The balance owed to Primary Group Services Ltd at 31 December 2002 was £971,456 (2001:£194,557)

During the year Monument Insurance Brokers Ltd, a wholly owned subsidiary of Primary Group (UK) Ltd provided a loan to the company of £200,000. The balance owed to Monument Insurance Brokers Ltd on 31 December 2002 was £250,000 (2001: £50,000).

At 31 December 2002, the company owed an amount of £16,121 (2001: £16,121) to Primary Group (UK) Ltd.

20. Ultimate holding company

The immediate parent company as at 31 December 2002 is Primary Insurance Group Limited, a company incorporated in the United Kingdom.

The ultimate holding company is Primary Group Limited, a company incorporated in Bermuda. In the opinion of the directors, the ultimate controllers at 31 December 2002 are the trustees of NUSA Trust and JIWO Trust, both trust companies being incorporated in the Cayman Islands.