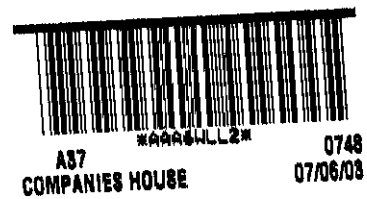


**BDML (HOLDINGS) LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2002**



# **BDML (HOLDINGS) LIMITED**

## **FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2002**

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# **BDML (HOLDINGS) LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

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### **DIRECTORS**

Mr A Ball  
Mr A Dunn  
Mr K Morris  
Mr S Lockwood  
Mr A Lancaster  
Mr J Kavanaugh

### **COMPANY SECRETARY**

Mrs S Towns

### **REGISTERED OFFICE**

The Connect Centre  
Kingston Crescent  
North End  
Portsmouth  
Hampshire  
PO2 8QL

### **AUDITORS**

Solomon Hare LLP  
Registered Auditors  
Chartered Accountants  
Oakfield House  
Oakfield Grove  
Clifton  
Bristol BS8 2BN

### **SOLICITORS**

DLA  
3 Noble Street  
London  
EC2V 7EE

# **BDML (HOLDINGS) LIMITED**

## **DIRECTORS' REPORT**

**YEAR ENDED 31 DECEMBER 2002**

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

### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the company during the year was that of the management and administration of its subsidiary and associate companies. BDML group companies specialise in providing insurance underwriting and business processing solutions working behind the brands of other financial services companies which have expertise in marketing and business acquisition. Sabre Insurance Company provides motor underwriting capacity and has particular skills in underwriting risks which are normally difficult to insure. BDML Connect provides insurance administration services and works with a panel of insurers to offer a range of personal insurance products to clients. BDML Connect also offers credit payment facilities, backed by securitised funding arrangements. Thornside is a specialist pet insurance intermediary. Ultimate Insurance Solutions provides and administers niche products such as legal expenses insurance, travel insurance and personal accident insurance.

On 8 February 2002 the company acquired the entire share capital of Sabre Insurance Company Limited. Full details are given in note 31 of the accounts.

#### **Business Review**

2002 was an important year in the development of the BDML Group. The acquisition of Sabre Insurance Company, completed on 8 February 2002, was a major milestone on the path to establishing BDML as one of the leading providers of insurance solutions to business partners in the financial services sector.

The consolidated pre-tax profit increased from £0.5 million in 2001 to £20.2 million in 2002. This figure includes the negative goodwill of £9.7 million arising on the acquisition of Sabre Insurance Company, which was written off during the year. Excluding the exceptional impact of this write-off, the pre-tax profit of £10.5 million achieved in 2002 represents an excellent return on capital. The result in 2002 has also benefited from the fall in interest rates over the year which led to stronger than expected returns on the bond portfolio. While the trading performance of the group is expected to improve further in 2003, we anticipate that investment returns will be lower.

Sabre Insurance Company made a record profit in 2002. This resulted both from a strong underwriting performance and, in the context of 2002 investment markets, an excellent investment return. However, we believe that 2002 was the peak year in the motor insurance cycle and we expect underwriting conditions to deteriorate over the next few years. Our underwriting approach includes the use of sophisticated actuarial techniques to price each risk to make a profit and we are prepared to shed volume if market conditions do not allow us to achieve our required profit margins.

# **BDML (HOLDINGS) LIMITED**

## **DIRECTORS' REPORT** *(continued)*

**YEAR ENDED 31 DECEMBER 2002**

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### **Business Review** *(continued)*

BDML Connect recorded a small increase in pre-tax profits in 2002. During the year several new contracts were secured including a major contract to provide outsourced services in relation to the RAC insurance brand. These contracts provide a solid base for growth of turnover and profits in 2003. Connect's strength in the business processing sector and proven track record of working behind the brand makes it an appealing outsourcing partner for organisations wishing to extend their brands to include personal insurances services. Connect works with its brand partners to find the right solution for their businesses. It is able to offer a flexible menu of services allowing partners to outsource various tasks whilst retaining key activities within their own organisation.

Thornside increased turnover and profits once again in 2002. During the year new relationships were developed with several new insurer partners, the management team was strengthened and many new contracts were secured. Thornside has established itself as one of the leading specialists in the pet insurance sector. Plans for 2003 include expansion both of the customer base and of the services offered including the development of a pet claims handling capability within the BDML group. BDML (Holdings) Limited will exercise its option to increase its shareholding in Thornside from 45% to 60% in 2003.

Ultimate Insurance Solutions Limited (Ultimate), formerly known as Ultimate Marketing Services (UK) Limited, changed its name to better reflect its activities. The management team was strengthened in the second half of 2001 with the appointment of Brian Lambert as managing director and Paul Hampshire as development director. The new team, working closely with other group companies, has secured important new contracts while increasing the range of services offered and improving the efficiency of the existing operation. Ultimate is now well placed to maintain its growth and move into profit in 2003 and beyond.

We would like to take this opportunity to thank the management and staff throughout the group, without whom the excellent performance in 2002 would not have been possible. We continue to be impressed by the dedication and professionalism of our staff at all levels and it is through them and their application that the group will continue to thrive in 2003 and beyond.

### **EMPLOYMENT OF DISABLED PERSONS**

The group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Management actively pursues both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of existing employees who may become disabled whilst employed by the company. Particular attention is given to the training, career development and promotion of disabled employees with a view to encouraging them to play an active role in the development of the group.

# **BDML (HOLDINGS) LIMITED**

## **DIRECTORS' REPORT** *(continued)*

**YEAR ENDED 31 DECEMBER 2002**

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### **EMPLOYEE INVOLVEMENT**

The flow of information to staff has been maintained by our staff forums, newsletter, and corporate intranet site. Members of the management team regularly discuss matters of current interest and concern to the business with members of staff.

### **CREDITOR PAYMENT POLICY**

It is the group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

The amounts due to trade creditors at 31 December 2002 represented approximately 19 days of average daily purchases through the year (2001 - 19 days).

### **RESULTS AND DIVIDENDS**

The trading results for the year, and the group's financial position at the end of the year are shown in the attached financial statements.

The directors have recommended the following dividends:

	2002 £	2001 £
Dividends payable on preference shares	4,466	-

### **DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY**

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Class of share	At 31 December 2002	At 31 December 2001 or later date of appointment
Mr A Ball	"B" ordinary	90,000	90,000
Mr A Dunn	"B" ordinary	90,000	90,000
Mr K Morris	"B" ordinary	90,000	90,000
Mr S Lockwood	"A" ordinary	30,000	30,000
Mr S Lockwood	Preference	100,000	-
Mr A Lancaster (appointed 17 April 2002)		-	-

Mr J Kavanaugh was appointed as a director on 11 March 2003.

### **DONATIONS**

During the year the group made charitable donations of £260 (2001 - £480).

# BDML (HOLDINGS) LIMITED

## DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2002

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### 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 the group at the end of the year and of the profit or loss of the group for the year then ended.

In preparing those financial statements, the directors are required to select suitable accounting policies, as described on pages 16 to 19, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group 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 group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### AUDITORS

On 1 October 2002, Solomon Hare, the company's auditor, transferred its entire business to Solomon Hare LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The directors consented to treating the appointment of Solomon Hare as extending to Solomon Hare LLP with effect from 1 October 2002. In accordance with the provisions of Section 386 of the Companies Act 1985 the company has dispensed with the obligation to appoint auditors annually. Solomon Hare have expressed their willingness to continue in office.

Signed by order of the board



Mrs S Towns  
Company Secretary

*21 May 2003*

# **BDML (HOLDINGS) LIMITED**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

**YEAR ENDED 31 DECEMBER 2002**

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We have audited the financial statements on pages 7 to 35 which have been prepared under the historical cost convention, as modified for the revaluation of certain assets, and the accounting policies set out on pages 16 to 19.

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 THE DIRECTORS AND THE AUDITORS**

As described on page 5 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

It is our responsibility 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 group is not disclosed.

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

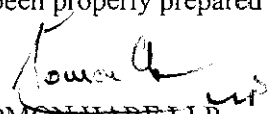
### **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with 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 circumstances of the company and the group, 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 and group's affairs as at 31 December 2002 and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

  
**SOLOMON HARE LLP**

Chartered Accountants  
Registered Auditors  
Bristol

Date: 21/5/03



**BDML (HOLDINGS) LIMITED****CONSOLIDATED PROFIT AND LOSS ACCOUNT****TECHNICAL ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note	Year ended 31 December 2002			Year ended 31 December 2001	
		Continuing operations £000	Acquisitions £000	Total £000	Continuing operations £000	Total £000
Gross premiums written	2	-	43,620	43,620	-	-
Outwards reinsurance premiums		-	(5,639)	(5,639)	-	-
		-	37,981	37,981	-	-
Change in the gross and net provision for unearned premiums		-	8,091	8,091	-	-
<b>Earned premiums, net of reinsurance</b>		-	46,072	46,072	-	-
Claims paid						
- Gross amount		-	(32,465)	(32,465)	-	-
- Reinsurer's share		-	1,029	1,029	-	-
		-	(31,436)	(31,436)	-	-
Change in the provision for claims						
- Gross amount		-	(8,543)	(8,543)	-	-
- Reinsurer's share		-	7,286	7,286	-	-
		-	(1,257)	(1,257)	-	-
<b>Claims incurred, net of reinsurance</b>		-	(32,693)	(32,693)	-	-
Net operating expenses	3	-	(10,085)	(10,085)	-	-
Total technical charges		-	(42,778)	(42,778)	-	-
<b>Balance on technical account</b>		-	3,294	3,294	-	-

The notes on pages 16 to 35 form part of these financial statements.

**BDML (HOLDINGS) LIMITED****CONSOLIDATED PROFIT AND LOSS ACCOUNT** *(continued)***NON-TECHNICAL ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note	Year ended 31 December 2002			Year ended 31 December 2001	
		Continuing operations £000	Acquisitions £000	Total £000	Continuing operations £000	Total £000
<b>Balance on technical account</b>		-	3,294	3,294	-	-
Investment income	4	86	7,751	7,837	106	106
Unrealised gains on investments	4	-	533	533	-	-
Realised losses on investments	4	-	(558)	(558)	-	-
Investment expenses and charges	4	(190)	(925)	(1,115)	(197)	(197)
		(104)	6,801	6,697	(91)	(91)
Share of associate		130	-	130	70	70
Other income	7	12,014	-	12,014	11,235	11,235
Other charges	8	(11,637)	-	(11,637)	(10,729)	(10,729)
Amortisation of goodwill	31	-	9,734	9,734	-	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>	9	403	19,829	20,232	485	485
Tax on profit on ordinary activities	10			(3,277)		(324)
<b>PROFIT FOR THE FINANCIAL YEAR AFTER TAX</b>				16,955		161
Minority interest				18		54
<b>PROFIT FOR THE FINANCIAL YEAR</b>				16,973		215
Dividends – non equity	11			(4)		-
<b>RETAINED PROFIT</b>				16,969		215

The notes on pages 16 to 35 form part of these financial statements.

**BDML (HOLDINGS) LIMITED****CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2002**

---

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Profit for the year	16,969	215
Unrealised loss on revaluation of investment	(67)	-
Total recognised gains and losses for the year	<u>16,902</u>	<u>215</u>

The notes on pages 16 to 35 form part of these financial statements

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**BDML (HOLDINGS) LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**31 DECEMBER 2002**

	Note	2002 £000	2001 £000
<b>ASSETS</b>			
Intangible assets	12	4,168	4,361
<b>Investments:</b>			
Land and buildings	13	7,175	-
Investment in associate	15	232	118
Other financial investments	14	133,055	-
Other investments	15	-	134
		140,462	252
<b>Reinsurers' share of technical provisions:</b>			
Claims outstanding		21,145	-
<b>Debtors:</b>			
Debtors arising out of direct insurance operations – intermediaries		3,069	-
Debtors arising out of outwards reinsurance		53	-
Securitised insurance debtors	17	12,069	12,694
Less: non-returnable proceeds	17	(10,556)	(11,299)
		1,513	1,395
Other debtors	18	4,427	814
		9,062	2,209
<b>Other assets</b>			
Tangible assets	19	1,071	858
Cash at bank and in hand		4,607	969
		5,678	1,827
<b>Prepayments &amp; accrued income:</b>			
Accrued interest and rent		910	-
Deferred acquisition costs		4,203	-
Other prepayments and accrued income		912	433
		6,025	433
<b>TOTAL ASSETS</b>		<u>186,540</u>	<u>9,082</u>

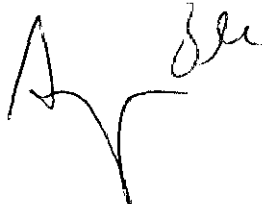
The notes on pages 16 to 35 form part of these financial statements.

**BDML (HOLDINGS) LIMITED****CONSOLIDATED BALANCE SHEET** *(continued)***31 DECEMBER 2002**

	Note	2002 £000	2001 £000
<b>LIABILITIES</b>			
<b>Share capital and reserves</b>			
Called up share capital	20	400	300
Revaluation reserve	21	-	67
Profit and loss account	21	17,424	455
<b>Shareholders' funds</b>	22	<u>17,824</u>	<u>822</u>
Equity shareholders' funds	22	17,724	822
Non-equity shareholders' funds	22	100	-
Minority interests		-	-
<b>Technical provisions</b>			
Provision for unearned premiums		22,088	-
Claims outstanding		<u>115,896</u>	<u>-</u>
		137,984	-
<b>Provisions for other risks and charges</b>			
Deferred tax	23	18	36
Unearned charges		<u>1,190</u>	<u>981</u>
		1,208	1,017
<b>Creditors: amounts falling due within one year</b>			
Creditors arising out of direct insurance operations		29	-
Other creditors	24	<u>15,259</u>	<u>4,168</u>
		15,288	4,168
<b>Creditors: amounts falling due after more than one year</b>			
Other creditors	26	9,003	2,862
<b>Accruals and deferred income</b>	25	<u>5,233</u>	<u>213</u>
<b>TOTAL LIABILITIES</b>		<u>186,540</u>	<u>9,082</u>

These financial statements were approved by the directors on 21.5.03 and are signed on their behalf by:

  
Mr A Dunn  
Director


  
Mr A Ball  
Director

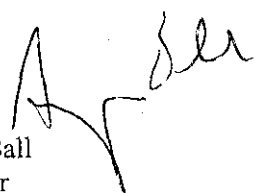
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**BDML (HOLDINGS) LIMITED****BALANCE SHEET****31 DECEMBER 2002**

	Note	2002 £000	2001 £000
<b>FIXED ASSETS</b>			
Investments	15	17,729	4,097
<b>CURRENT ASSETS</b>			
Debtors	18	2	152
Cash at bank and in hand		-	4
			<u>156</u>
<b>CREDITORS: Amounts falling due within one year</b>	24	<u>(6,302)</u>	<u>(2,064)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(6,300)</u>	<u>(1,908)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>11,429</u>	<u>2,189</u>
<b>CREDITORS: Amounts falling due after more than one year</b>	26	9,003	2,800
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	20	400	300
Revaluation reserve	21	-	67
Profit and loss account	21	<u>2,026</u>	<u>(978)</u>
<b>SHAREHOLDERS' FUNDS</b>	22	<u>2,426</u>	<u>(611)</u>
		<u>11,429</u>	<u>2,189</u>
Equity shareholders' funds	22	2,326	(611)
Non-equity shareholders' funds	22	<u>100</u>	<u>-</u>
		<u>2,426</u>	<u>(611)</u>

These financial statements were approved by the directors on 21.5.03, and are signed on their behalf by:

  
Mr A Dunn  
Director

  
Mr A Ball  
Director

The notes on pages 16 to 35 form part of these financial statements.

**BDML (HOLDINGS) LIMITED****CONSOLIDATED CASH FLOW STATEMENT****YEAR ENDED 31 DECEMBER 2002**

	2002		2001	
	£000	£000	£000	£000
<b>Net cash inflow from operating activities</b>		17,657		1,134
<b>Returns on investments and servicing of finance</b>				
Interest paid	(990)			
Finance raising costs	(268)		(197)	
<b>Net cash outflow from returns on investments and servicing of finance</b>		(1,258)		(197)
<b>Taxation</b>				
Corporation tax paid	(3,755)		(149)	
<b>Taxation paid</b>		(3,755)		(149)
<b>Capital expenditure</b>				
Purchase of tangible fixed assets	(517)		(185)	
Sale of tangible fixed assets	10		-	
<b>Net cash outflow from capital expenditure</b>		(507)		(185)
<b>Acquisition and disposals</b>				
Disposal of subsidiaries	-		10	
Acquisition of subsidiary	(6,919)		-	
Deferred consideration paid on subsidiary	(2,250)		-	
Bank and cash acquired with subsidiaries	(66)		-	
Part acquisition of subsidiary	(35)		-	
Acquisition of associated undertaking	(62)		(63)	
<b>Net cash outflow from acquisitions and disposals</b>		(9,332)		(53)
<b>Net cash inflow before financing</b>		2,805		550
<b>Financing</b>				
Issue of new non-equity shares	100		-	
Increase in bank loan	4,250		-	
Repayment of bank loans	(1,816)		(483)	
<b>Net cash inflow/(outflow) from financing</b>		2,534		(483)
<b>Increase in cash in the year</b>		5,339		67

The notes on pages 16 to 35 form part of these financial statements.

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

YEAR ENDED 31 DECEMBER 2002

### RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002	2001
	£000	£000
Operating profit before tax	20,232	485
Depreciation	333	291
Amortisation of positive goodwill	230	230
Amortisation of negative goodwill	(9,734)	-
Loss on sale of fixed assets	3	-
Loss on sale of other investments	558	-
Profit on part disposal of subsidiary	-	(20)
Unrealised gain on other investments	(533)	-
Unrealised gain on investment properties	(544)	-
Movement in value of associate	(52)	(70)
Interest payable	1,072	197
Decrease in debtors	3,562	1,397
Increase/(decrease) in non recourse financing	118	(615)
Increase in prepayments	(734)	(241)
Increase in technical provisions	318	-
Increase in reinsurer's share of technical provisions	(7,165)	-
Increase/(decrease) in creditors	7,091	(331)
Increase/(decrease) in accruals	2,610	(252)
Increase in other provisions	209	-
Provision for funding of loss making subsidiary	16	63
Impairment in value of investment	67	-
Net cash inflow from operating activities	<u>17,657</u>	<u>1,134</u>

### CASHFLOWS WERE INVESTED AS FOLLOWS:

	2002	2002	2001	2001
	£000	£000	£000	£000
Increase in cash holdings		2,614		67
<b>Net portfolio investment:</b>				
Fixed income securities	(1,956)		-	
Purchase of investment properties	<u>4,681</u>		-	
		2,725		-
Net investment in cashflows		<u>5,339</u>		<u>67</u>

The notes on pages 16 to 35 form part of these financial statements.



# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED CASHFLOW STATEMENT

YEAR ENDED 31 DECEMBER 2002

### MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	2002 £000	2002 £000	2001 £000	2001 £000
Net cashflow for the year	2,614		67	
Cashflow:				
Portfolio investments	2,167		-	
(Increase)/decrease in loans	(2,248)		483	
		2,533		550
Acquired with subsidiary		136,986		-
Changes in market value		1,077		-
		140,596		550
Portfolio investments net of financing at 1 January 2002		(2,783)		(3,333)
Portfolio investments net of financing at 31 December 2002		137,813		(2,783)

### MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 Jan 2002 £000	Cashflow £000	Acquired with sub £000	Changes to market values £000	At 31 Dec 2002 £000
Cash at bank and in hand	969	3,638	-	-	4,607
Bank overdrafts	(490)	(1,024)	-	-	(1,514)
Fixed income securities	-	(2,514)	135,036	533	133,055
Investment properties	-	4,681	1,950	544	7,175
Loans due within one year	(400)	(1,386)	-	-	(1,786)
Loans due after one year	(2,862)	(862)	-	-	(3,724)
	(2,783)	2,533	136,986	1,077	137,813

### PURCHASE OF SUBSIDIARY UNDERTAKING

On 8 February 2002 the company acquired a 100% holding in Sabre Insurance Company Limited for £13,451,000, comprising £6,701,000 paid in cash and £6,750,000 deferred consideration. Details of the acquisition are disclosed in note 31 of the financial statements.

The subsidiary undertaking acquired during the year contributed £10,775,000 to the group's net operating cashflows, paid £nil in respect of interest, paid £3,593,000 in respect of taxation and utilised £254,000 for capital expenditure.

# **BDML (HOLDINGS) LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2002**

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### **1. ACCOUNTING POLICIES**

#### **Basis of accounting**

The group financial statements, which consolidate the financial statements of the company and its subsidiary undertakings, have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The Balance Sheet of the parent company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain assets, and comply with the Statement of Recommended Practice issued by the Association of British Insurers.

#### **Consolidation**

The consolidated financial statements incorporate the financial statements of the company and each of its subsidiaries for the year ended 31 December 2002 and excludes all intra-group transactions. No profit and loss account is presented by the parent company as permitted by Section 230 of the Companies Act 1985.

#### **Associates**

An entity is treated as an associated undertaking where the group has a participating interest and exercises significant influence over its operating and financial policy decisions.

In the group financial statements, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the group share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements for the year. In the consolidated balance sheet, the interests in the associated undertakings are shown as the group's share of the net assets, exclusive of any goodwill. Any premium on acquisition is dealt with in accordance with the policy for goodwill.

#### **Goodwill**

Goodwill arising on the acquisition of the company's subsidiary undertakings has been capitalised as an intangible fixed asset. In estimating the useful economic life of goodwill arising, account has been taken of the nature of the business acquired, the stability of the industry and the expected future impact of competition.

The directors consider that BDML Connect Limited has a proven ability to maintain its position in the market over a long period and will adapt successfully to any foreseeable changes in the insurance industry, such that the business will prove to be durable. BDML Connect Limited has also shown consistent growth in both turnover and operating profits. Accordingly, the goodwill is not amortised and, in order to give a true and fair view, the financial statements depart from the requirement of amortising goodwill over a finite period, as required by the Companies Act 1985. Instead an annual impairment test is undertaken and any impairment that is identified will be charged to the profit and loss account. It is not possible to quantify the effect of the departure from the Companies Act, because no finite life for goodwill can be identified.

Negative goodwill arising on the acquisition of the entire share capital of Sabre Insurance Company Limited has been capitalised, and relates to the surplus of the fair value of assets acquired in excess of the purchase price. Negative goodwill on the non-monetary assets is amortised through the profit and loss account in the period in which it is realised. In the opinion of the directors the amortisation period of this negative goodwill is one year.

# **BDML (HOLDINGS) LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2002**

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### **1. ACCOUNTING POLICIES *(continued)***

#### **Goodwill *(continued)***

Goodwill arising in an individual subsidiary company's financial statements resulting from the acquisition of a book of business is capitalised and amortised over the life of the asset. Any impairment in the carrying value of goodwill is determined as the greater of the post tax net realisable value of the goodwill and the value of the goodwill in use. The value in use is determined by reference to the discounted future cashflows which are anticipated to be generated by the goodwill. Any impairment in value is charged to the profit and loss account.

Amortisation of goodwill in individual subsidiary financial statements is calculated so as to write off the cost of the asset, less its estimated residual value, over the useful economic life of that asset, 7 years.

#### **Investments**

Investments are shown in the balance sheet as follows:

- (i) Listed securities at middle market value less accrued interest where applicable.
- (ii) Investment properties at open market value valued by qualified external surveyors.
- (iii) Unlisted shares at cost or valuation less any provision for an impairment in value.

#### **Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of the asset as follows:

Office equipment	-	15% straight line
IT equipment	-	15% straight line
Motor vehicles	-	33% straight line
Fixtures and fittings	-	20% straight line

#### **Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits as incurred.

#### **Deferred taxation**

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred taxation balance has not been discounted.

The above amounts to a change in accounting policy. The previous policy was to provide deferred taxation only to the extent that it was probable that liabilities would crystallise in the foreseeable future.

This change in policy has had no effect on the results of the current or preceding year.

# **BDML (HOLDINGS) LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2002**

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### **1. ACCOUNTING POLICIES *(continued)***

#### **Pension costs**

The group operates a matched contribution group personal pension scheme where the group contributes an amount matching the contribution made by the staff member. In addition, the group does fund the pension contributions of some of its senior employees. Accordingly, the contributions are charged to the profit and loss account as they are incurred.

#### **Foreign currency**

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any exchange differences are taken to the profit and loss account.

#### **Substance of transactions**

The consolidated balance sheet includes certain trading balances in respect of a business service provided to a client by a subsidiary undertaking. While some balances are not assets or liabilities of the group, as it does not bear the risks and rewards of ownership, they are shown in the balance sheet because, in the opinion of the directors, it more accurately reflects the substance of the whole transactions undertaken. This has no impact on net assets or profit of the group.

#### **Premiums**

Premiums are accounted for in the year the risk commences. An adjustment has been made for the overall effect of new business premiums, mid term adjustments and lapses of renewal premiums not accounted for in the year of risk inception.

#### **Claims**

Claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date.

#### **Technical provisions**

- (i) Unearned premiums are those proportions of the premiums written in a year that relate to the periods of risk subsequent to the balance sheet date. They are computed principally on a daily pro-rata basis.
- (ii) Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs. Any estimate represents a point within a range of possible outcomes.
- (iii) Provision is made for unexpired risks when, after taking account of an element of attributable investment income, it is anticipated that the unearned premiums will be insufficient to cover future claims and expenses on existing contracts. The expected claims are calculated having regard to events which have occurred prior to the balance sheet date. Unexpired risk surpluses and deficits are offset when business classes are managed together and a provision is made if an aggregate deficit arises.

Any differences between the provisions at the balance sheet date and settlements and provisions in the following year are included in the technical account for that year.

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

### 1. ACCOUNTING POLICIES *(continued)*

#### **Deferred acquisition costs**

Deferred acquisition costs represent a proportion of commission and other acquisition costs that relate to policies that are in force at the year end. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

#### **Investment income, realised and unrealised investment gains and losses**

Investment income consists of interest receivable for the year. Income is credited to the profit and loss account at the amount receivable, with no associated tax credit for income from the United Kingdom. Interest receivable is accounted for on an accruals basis.

Net realised gains/losses on investments are calculated as the difference between net sales proceeds and the cost of acquisition.

Unrealised gains and losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year. Net movements in the year are taken to the profit and loss account and disclosed as unrealised gains/(losses) on investments.

#### **Investment expenses and charges**

Investment expenses and charges consist of the expenses relating to the management of the investment portfolio and interest payable.

### 2. SEGMENTAL INFORMATION

Turnover is attributable to the principal activities of the group which arose wholly within the United Kingdom.

An analysis of turnover and profit before taxation between each major class of business has not been provided.

### 3. NET OPERATING EXPENSES

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Gross written commission	5,349	-
Other acquisition costs	2,423	-
Change in deferred acquisition costs	645	-
Administrative expenses	1,668	-
	<u>10,085</u>	<u>-</u>

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

### 4. INVESTMENT RETURN

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
<b>Investment income:</b>		
Income from other investments	7,837	106
<b>Investment expenses and charges:</b>		
Bank interest payable	(420)	(197)
Loan interest payable	(561)	-
Amortisation of finance costs	(82)	-
Other interest payable	(9)	-
Investment management expenses	(43)	-
	<u>(1,115)</u>	<u>(197)</u>
Losses on the realisation of investments	(558)	-
Unrealised gains on investments	533	-
	<u>6,697</u>	<u>(91)</u>

### 5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to:

	2002 No.	2001 No.
Operations and management	<u>452</u>	<u>313</u>

The aggregate payroll costs of the above were:

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Wages and salaries	6,684	3,920
Social security costs	560	315
Other pension costs	306	22
Other staff costs	17	17
	<u>7,567</u>	<u>4,274</u>

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

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### 6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Emoluments receivable	<u>506</u>	<u>318</u>

Emoluments of the highest paid director:

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Emoluments receivable	<u>165</u>	<u>107</u>

### 7. OTHER INCOME

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Insurance intermediary group income	<u>12,014</u>	<u>11,235</u>

### 8. OTHER CHARGES

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Insurance intermediary group expenses	11,425	10,686
Other expenses	212	43
	<u>11,637</u>	<u>10,729</u>

**BDML (HOLDINGS) LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2002**

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**9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX**

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Profit on ordinary activities before tax is stated after charging/(crediting):		
Amortisation of positive goodwill	230	230
Amortisation of negative goodwill	(9,734)	-
Depreciation	333	289
Auditors remuneration - audit services	69	26
- non audit services	36	25
Loss on disposal of fixed assets	3	-
Operating lease costs:		
Land and buildings	305	281
Impairment in value of unlisted investments	67	3
Profit on disposal of shares in subsidiary undertaking	-	(20)
Provision for funding of less making subsidiary	18	63

**10. TAX ON PROFIT ON ORDINARY ACTIVITIES****a) Analysis of current period tax charge**

	Year ended 31 December 2002 £000	Year ended 31 December 2001 £000
Current tax:		
In respect of the year:		
UK corporation tax based on the results for the year at 30% (2001 – 30%)	3,246	239
Share of associated undertakings tax charge	29	15
Adjustments in respect of previous years	20	73
Total current tax	3,295	327
Deferred tax:		
Decrease in deferred tax provision (note 23)		
Capital allowances	(18)	(3)
Tax on profit on ordinary activities	3,277	324

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**BDML (HOLDINGS) LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2002****10. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)****b) Factors affecting current year tax charge**

The UK standard rate of corporation tax is 30% (2001 – 30%), whereas the current tax assessed for the year ended 31 December 2002 as a percentage of profit before tax is 16.2% (2001 – 67.4%). The reasons for this difference are explained below:

	2002 £000	2002 %	2001 £000	2001 %
Profit on ordinary activities before tax	<u>20,232</u>		<u>485</u>	
Current tax on profit on ordinary activities calculated at the standard rate of corporation tax in the UK of 30%	6,070	30.0	146	30.1
Depreciation for the year in excess of capital allowances	(75)	(0.4)	2	0.4
Capital gain	-	-	3	0.6
Expenses not deductible for tax purposes	121	0.6	81	16.7
Timing differences	38	0.2	-	-
Losses carried forward	47	0.2	12	2.5
Consolidation adjustments	(2,914)	(14.4)	16	3.3
Associated company profits	<u>(41)</u>	<u>(0.2)</u>	<u>(21)</u>	<u>(4.3)</u>
UK corporation tax charge for the year	3,246	16.0	239	49.3
Associated company's tax charge	29	0.1	15	3.1
Adjustments in respect of previous years	<u>20</u>	<u>0.1</u>	<u>73</u>	<u>15.0</u>
Current tax charge in the year	<u>3,295</u>	<u>16.2</u>	<u>327</u>	<u>67.4</u>

**c) Factors affecting future tax charges**

The impact of deferred tax can be seen in note 23.

**11. DIVIDENDS – NON EQUITY**

The following dividends have been proposed in respect of the year:

	2002 £000	2001 £000
Dividend proposed on preference shares	<u>4</u>	<u>-</u>

**BDML (HOLDINGS) LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2002****12. INTANGIBLE FIXED ASSETS – GROUP**

	Book of business £000	Goodwill on acquisition £000	Negative goodwill on acquisition £000	Total £000
<b>COST</b>				
At 1 January 2002	1,612	3,555	-	5,167
On acquisition	-	37	(9,734)	(9,697)
At 31 December 2002	<u>1,612</u>	<u>3,592</u>	<u>(9,734)</u>	<u>(4,530)</u>
<b>AMORTISATION</b>				
At 1 January 2002	806	-	-	806
Charge for the year	230	-	(9,734)	(9,504)
At 31 December 2002	<u>1,036</u>	<u>-</u>	<u>(9,734)</u>	<u>(8,698)</u>
<b>NET BOOK VALUE</b>				
At 31 December 2002	<u>576</u>	<u>3,592</u>	<u>-</u>	<u>4,168</u>
At 31 December 2001	<u>806</u>	<u>3,555</u>	<u>-</u>	<u>4,361</u>

Positive goodwill arising on the increase in shareholding of a subsidiary and associated undertaking is further explained in note 15. Negative goodwill arising on the acquisition of a subsidiary is further explained in note 31.

**13. INVESTMENTS – LAND AND BUILDINGS**

<b>GROUP</b>	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
<b>At market value:</b>		
Properties occupied by the Group, freehold	3,286	-
Other investment properties, freehold	3,889	-
	<u>7,175</u>	<u>-</u>

Freehold land and buildings were valued at open market value on 24 July 2002 and 11 October 2002 respectively by Hughes Ellard Limited.

**BDML (HOLDINGS) LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2002****14. INVESTMENTS – OTHER FINANCIAL INVESTMENTS**

GROUP	2002		2001	
	Market value £000	Historical cost £000	Market value £000	Historical cost £000
Debt and other fixed income securities	<u>133,055</u>	<u>133,321</u>	<u>-</u>	<u>-</u>

All investments are listed UK Government fixed interest securities.

**15. INVESTMENTS**

COMPANY	Unlisted shares in associated undertakings £000	Unlisted shares in group undertakings £000	Other unlisted investments £000	Total £000
<b>Cost or valuation</b>				
At 1 January 2002	63	3,900	217	4,180
Additions	62	13,704	-	13,766
At 31 December 2002	<u>125</u>	<u>17,604</u>	<u>217</u>	<u>17,946</u>
<b>Impairment in value</b>				
At 1 January 2002	-	-	83	83
Provision in the year	-	-	134	134
At 31 December 2002	<u>-</u>	<u>-</u>	<u>217</u>	<u>217</u>
<b>Net Book Value</b>				
At 31 December 2002	<u>125</u>	<u>17,604</u>	<u>-</u>	<u>17,729</u>
At 31 December 2001	<u>63</u>	<u>3,900</u>	<u>134</u>	<u>4,097</u>

The historical cost of the other unlisted investments is:

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Cost	150	150	150	150
Impairment in value	(150)	(83)	(150)	(83)
Historical cost net book value	<u>-</u>	<u>67</u>	<u>-</u>	<u>67</u>

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

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### 15. INVESTMENTS *(continued)*

The company owns the following percentages of the issued share capital of the subsidiary and associated undertakings listed below:

Company	Percentage holding	Nature of business
BDML Connect Limited	100	Insurance intermediary
Sabre Insurance Company Limited	100	Insurance company
Ultimate Insurance Solutions Limited (formerly known as Ultimate Marketing (UK) Limited)	68	Provision of services to insurance companies and insurance brokers
Thornside Limited	45	Pet insurance intermediary

In addition the company owns 100% of the issued share capital of Insuremythings.com Limited, 100% of the issued share capital of Insuremythings.co.uk Limited, and 50% of the issued share capital of Team Mortgage Limited, all of which were dormant throughout the year.

All subsidiary and associated undertakings were incorporated in the United Kingdom.

Included in the acquisition of the entire "B" ordinary share capital of Ultimate Insurance Solutions Limited was an agreement that, in 2004, the company would, if required, acquire the entire "A" ordinary share capital at market value. During the year, the company acquired 72 "A" ordinary shares in Ultimate Insurance Solutions Limited.

Included in the 2001 acquisition of 30% of the share capital of Thornside Limited were various put and call options relating to the acquisition of the remaining ordinary share capital by BDML (Holdings) Limited. The put option has various conditions attached to it, which must be satisfied before BDML (Holdings) Limited is required to acquire further shares. The options are exercisable in stages, with a final date for exercise of June 2006 at a price calculated on an agreed basis. During the year, the company acquired 15 ordinary shares in Thornside Limited.

All of the above subsidiary and associated undertakings have been included in the consolidated financial statements from the date of acquisition.

The company's other investments relate to a small shareholding in a company registered in the United Kingdom, these shares have no voting rights, and a small shareholding in a company registered on the commercial register of the Chamber and Commerce and Industry for Gooiland (Hilversum) in the Netherlands. The directors revalued this investment on 31 December 2002 and of the total impairment of £134,000, £67,000 has been debited to the revaluation reserve and £67,000 has been debited to the profit and loss account.

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

### 15. INVESTMENTS – OTHER *(continued)*

GROUP	Associated undertaking £000	Unlisted investment £000
<b>Cost or valuation</b>		
At 1 January 2002	63	217
Addition	62	-
At 31 December 2002	<u>125</u>	<u>217</u>
<b>Share of retained profit</b>		
At 1 January 2002	55	-
Share of retained profit for the year	52	-
At 31 December 2002	<u>107</u>	<u>-</u>
<b>Impairment in value</b>		
At 1 January 2002	-	83
Provision in the year	-	134
At 31 December 2002	<u>-</u>	<u>217</u>
<b>Total</b>		
At 31 December 2002	<u>232</u>	<u>-</u>
At 31 December 2001	<u>118</u>	<u>134</u>

During the year the company acquired a further 15% investment in Thornside Limited (2001 – 30%). Included within the carrying value of the associated undertaking is goodwill arising on the acquisition of £104,000 (2001 – £64,000).

### 16. REINSURANCE

Prior to its acquisition by the company, Sabre Insurance Company Limited effected an unlimited aggregate stop loss reinsurance policy with Norwich Union Insurance Limited, the effect of which is to limit Sabre's exposure to any possible deterioration in reserves for claims occurring in 2001 and prior years. This insurance policy also protects Sabre against any reinsurance bad debts in respect of these claims.

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

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### 17. INSURANCE DEBTORS SUBJECT TO A SECURITISATION AGREEMENT

In January 2002, BDML Connect Limited entered into an agreement to securitise customer receivables which derive from the provision of instalment credit facilities to insurance customers of the company.

BDML Connect Limited sells the receivables, with no immediate impact on the profit and loss account, for cash to a third party that takes on the rights and responsibilities of the asset.

Principal and interest is repayable from the customer receivables. At 31 December 2002 the amount of customer receivables covered by this agreement was £12,069,325 (2001 - £12,693,680) raising funds of £10,556,095 (2001 - £11,298,630) and this is shown on the balance sheet using linked presentation.

There exists a charge over the company's assets, but limited to the amount of collections made by BDML Connect Limited on behalf of the purchaser of the receivables. The total value of these collections as at 31 December 2002 was £1,321,496 (2001 - £827,916).

### 18. OTHER DEBTORS

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Other trade debtors	4,083	730	-	-
Other debtors	344	84	2	30
Prepayments and accrued income	-	-	-	122
	<u>4,427</u>	<u>814</u>	<u>2</u>	<u>152</u>

**BDML (HOLDINGS) LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2002****19. TANGIBLE FIXED ASSETS – GROUP**

	Motor Vehicles £000	Office Equipment £000	IT Equipment £000	Fixtures & Fittings £000	Total £000
<b>COST</b>					
At 1 January 2002	29	644	1,497	280	2,450
On acquisitions	126	-	986	254	1,366
Additions	-	76	377	64	517
Disposals	(20)	-	(1)	(3)	(24)
At 31 December 2002	<u>135</u>	<u>720</u>	<u>2,859</u>	<u>595</u>	<u>4,309</u>
<b>DEPRECIATION</b>					
At 1 January 2002	18	223	1,159	192	1,592
On acquisitions	126	-	954	247	1,327
Charge for the year	2	101	185	45	333
On disposals	(11)	-	(1)	(2)	(14)
At 31 December 2002	<u>135</u>	<u>324</u>	<u>2,297</u>	<u>482</u>	<u>3,238</u>
<b>NET BOOK VALUE</b>					
At 31 December 2002	<u>-</u>	<u>396</u>	<u>562</u>	<u>113</u>	<u>1,071</u>
At 31 December 2001	<u>11</u>	<u>421</u>	<u>338</u>	<u>88</u>	<u>858</u>

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

### 20. SHARE CAPITAL

Authorised, allotted, called up and fully paid:

	2002 £000	2001 £000
30,000 "A" Ordinary shares of £1 each	30	30
270,000 "B" Ordinary shares of £1 each	270	270
100,000 10% cumulative redeemable preference shares of £1 each	100	-
	<u>400</u>	<u>300</u>

On 8 February 2002 the company issued 100,000 cumulative redeemable preference shares of £1 each at par to finance the acquisition of Sabre Insurance Company Limited.

The preference shares are redeemable upon the occurrence of certain future events and a premium exists on redemption based on the occurrence of these events. In the opinion of the directors, these events are not foreseeable and consequently it is not possible to calculate any potential redemption premium.

#### Rights of shares

All classes of shares rank *pari passu* with each other in all respects, except that

- (a) In any return of capital the preference shares rank above the "B" Ordinary shares, which rank above the "A" Ordinary shares.
- (b) The holders of a majority of the nominal value of the "A" shares are entitled to appoint one person as a non – executive Director of the company.
- (c) The holders of a majority of the nominal value of the "B" shares are entitled to appoint up to three persons as Directors of the company.

### 21. OTHER RESERVES

Group	Revaluation reserve £000	Profit and Loss account £000
At 1 January 2002	67	455
Impairment of investment	(67)	-
Profit for the year	-	16,969
At 31 December 2002	<u>-</u>	<u>17,424</u>
<b>Company</b>		
At 1 January 2002	67	(978)
Impairment of investment	(67)	-
Profit for the year	-	3,004
At 31 December 2002	<u>-</u>	<u>2,026</u>



**BDML (HOLDINGS) LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2002****22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£0000	£000
Opening shareholders' funds	822	606	(611)	(362)
Profit for the year	16,969	216	3,004	(249)
New preference share capital subscribed	100	-	100	-
Decrease in revaluation reserve	(67)	-	(67)	-
Closing shareholders' funds	<u>17,824</u>	<u>822</u>	<u>2,426</u>	<u>(611)</u>

Included in the above figures are closing shareholders' non-equity funds of £100,000 for both the group and the company.

**23. DEFERRED TAXATION**

The movement on the deferred taxation provision during the year was:

	2002	2001
	£000	£000
Provision brought forward	36	39
Decrease in provision	(18)	(3)
Provision carried forward	<u>18</u>	<u>36</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

Group	Provided		Unprovided	
	2002	2001	2002	2001
	£000	£000	£0000	£000
Accelerated capital allowances	18	36	-	-
Tax losses	-	-	(51)	-
Other timing differences	-	-	(44)	-
	<u>18</u>	<u>36</u>	<u>(95)</u>	<u>-</u>
Company	Provided		Unprovided	
	2002	2001	2002	2001
	£000	£000	£0000	£000
Tax losses	<u>-</u>	<u>-</u>	<u>(39)</u>	<u>-</u>

**BDML (HOLDINGS) LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2002****24. OTHER CREDITORS: Amounts falling due within one year**

	Group		Company	
	2002 £000	2001 £000	2002 £0000	2001 £000
Bank loans and overdrafts	3,300	890	2,652	400
Other loans	2,250	-	2,250	-
Other trade creditors	6,200	2,598	-	-
Amounts owed to group undertakings	-	-	1,278	1,640
Amounts owed to associated undertaking	30	-	-	-
Other taxation and social security	571	124	-	-
Other creditors	543	244	63	16
Corporation tax	2,361	312	-	-
Dividends payable	4	-	4	-
Accruals and deferred income	-	-	55	8
	<u>15,259</u>	<u>4,168</u>	<u>6,302</u>	<u>2,064</u>

**25. ACCRUALS AND DEFERRED INCOME**

GROUP	2002 £000	2001 £000
Accruals falling due within one year	4,895	138
Accruals falling due after more than one year	338	75
Total accruals and deferred income	<u>5,233</u>	<u>213</u>

**26. OTHER CREDITORS: Amounts falling due after more than one year**

	Group		Company	
	2002 £000	2001 £000	2002 £0000	2001 £000
Bank loans	3,724	2,862	3,724	2,800
Other loans	2,250	-	2,250	-
Other creditors	3,029	-	3,029	-
	<u>9,003</u>	<u>2,862</u>	<u>9,003</u>	<u>2,800</u>

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

### 27. CAPITAL INSTRUMENTS

Loans are repayable as follows:

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£0000	£000
In one year or less, or on demand	4,036	483	3,974	400
Between one and two years	3,974	463	3,974	400
Between two and five years	1,200	1,200	1,200	1,200
In five years or more	3,700	1,200	3,700	1,200
	<u>12,910</u>	<u>3,346</u>	<u>12,848</u>	<u>3,200</u>

The above liabilities are in respect of three bank loans, one other loan and loan notes details of which are set out below:

#### Bank loan one

Repayable in 14 equal quarterly instalments of £24,532 ending in 2003, following an initial instalment of £26,532. The loan bears interest of £3,717 per quarter.

#### Bank loan two

Repayable in 10 annual instalments of £400,000 ending in 2009. Interest on the loan is charged at 0.35% over bank base rate. The loan is secured by a fixed and floating charge over the assets of BDML (Holdings) Limited.

#### Bank loan three

Repayable in 2 annual instalments of £1,416,667. Interest on the loan is charged at 2.25% over bank base rate. The loan is secured by a fixed and floating charge over the assets of BDML (Holdings) Limited.

#### Other loan – deferred consideration

Repayable in 2 annual instalments of £2,250,000. Interest on the loan is charged at 1% over bank base rate. The loan is secured by a second charge over the entire issued share capital of Sabre Insurance Company Limited.

#### Loan notes

Repayable in one instalment of £2,900,000 in 2009, unless an event as set out in the underlying agreement crystallises earlier repayment. Interest on the loan notes is charged at 10% per annum.

# **BDML (HOLDINGS) LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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### **28. COMMITMENTS UNDER OPERATING LEASES**

At 31 December 2002 the group and company had annual commitments under non-cancellable operating leases as set below:

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£0000	£000
Operating leases which expire:				
Within 1 to 2 years	-	206	-	-

### **29. RELATED PARTY TRANSACTIONS**

The following transactions occurred between group companies and the following related parties:

#### **Stephen J Lockwood & Company LLC**

The company has been charged consultancy fees totalling £237,380 (2001 - £78,482) by Stephen J Lockwood & Company LLC, a company controlled by S Lockwood, a director of the company. As at 31 December 2002 £49,850 was due from the group (2001 - £3,770 due to the group).

The company issued loan notes totalling £2,900,000 (2001 - £nil) to Stephen J Lockwood & Company LLC during the year, of which £2,900,000 (2001 - £nil) was outstanding as the year end. The company was charged interest of £259,014 (2001 - £nil) on the loan notes during the year, of which £141,822 (2001 - £nil) remained outstanding at the year end.

#### **Thornside Limited**

During the year, BDML Connect Limited received commission of £34,000 (2001 - £25,000) from Thornside Limited, an associated company. BDML Connect Limited also paid commission of £70,000 (2001 - £15,000) to Thornside Limited during the year. At the year end a balance of £30,000 was owed to Thornside Limited (2001 - £5,000 owed by Thornside Limited).

During the year, Ultimate Insurance Solutions Limited made sales of £3,000 (2001 - £nil) to Thornside Limited. At the year end a balance of £3,000 (2001 - £nil) remained outstanding.

The company has taken advantage of the exemption not to disclose any transactions with entities that are part of BDML (Holdings) Limited group which qualify as related parties, due to the preparation of consolidated accounts by the company.

### **30. ULTIMATE CONTROLLING PARTY**

The company is controlled by S Lockwood, a director of the company.

# BDML (HOLDINGS) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

### 31. ACQUISITION OF BUSINESS

On 8 February 2002 the company acquired a 100% holding in Sabre Insurance Company Limited for £13,519,000, comprising £6,769,000 paid in cash and £6,750,000 deferred consideration. The deferred consideration is payable in 3 equal instalments on 31 December 2002, 31 December 2003 and 31 December 2004.

The acquisition was financed by bank borrowings from Lloyds TSB Bank plc, and the issue of loan notes and redeemable preference shares.

In calculating the goodwill arising on acquisition, the fair values of the net assets acquired have been assessed and adjustments from book value have been made where necessary.

	Book and Fair value to the group £000
Tangible assets	1,992
Investments	135,036
Debtors due in one year	29,371
Bank and cash	(66)
Creditors	(142,930)
Net assets	<u>23,403</u>
	£000
Cash consideration (including expenses of £150,000)	6,919
Deferred consideration	6,750
	<u>13,669</u>
Net assets acquired	23,403
Negative goodwill arising on acquisition (note 12)	<u>(9,734)</u>

The results of Sabre Insurance Company Limited prior to its acquisition were as follows:

Profit and Loss Account:	1 January 2002 to 8 February 2002	Year ended 31 December 2001
	£000	£000
Gross written premiums	<u>5,789</u>	<u>49,409</u>
Operating profit on ordinary activities before taxation	604	7,724
Taxation on profit on ordinary activities	(181)	(2,327)
Profit for the period	<u>423</u>	<u>5,397</u>

Results for the year ended 31 December 2001 have been obtained from audited accounts. Results for the period from 1 January 2002 to 8 February 2002 have been obtained from unaudited management accounts.