BDML (HOLDINGS) LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2003

Company Registration Number 3675407

BDML (HOLDINGS) LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2003

CONTENTS

BDML (HOLDINGS) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

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

The directors present their report and the financial statements for the year ended 31 December 2003.

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 28 August 2003 the company re-designated its 'A' and 'B' ordinary shares and Preference shares as Ordinary Shares of £1 each, and increased its authorised share capital to £415,400.

Business Review

The BDML group has made further progress in fulfilling its strategic vision in 2003. Underlying profitability continues to improve with consolidated pre-tax profits of £11.7 million, about 10% up on the previous year after excluding the exceptional write-off of negative goodwill in that year.

The motor insurance underwriting operations of the group have performed well in the year. Our disciplined approach to underwriting, supported by rigorous actuarial analysis and an experienced claims handling team, saw the combined ratio fall to 90% while gross written premiums grew to £63.9 million. Market conditions have been weakening more slowly than previously expected, although we believe that market premium adequacy is now falling in real terms. We expect this trend to continue over the next few years. Our fundamental business principle is to price each risk to make a profit and, whilst we aim to outperform the market throughout the cycle, we are prepared to lose market share if conditions reach a level where profitable underwriting is not possible. The outlook for 2004 is still reasonably positive and we hope to achieve further growth in premiums while maintaining a strong level of profitability.

We continue to adopt a conservative investment policy for insurance company assets. Around 88% of the investment portfolio is held in cash or short-term gilts. About 7% of the portfolio is held in commercial property (including the buildings occupied by group companies) and the remaining 5% is held in UK equities. The development of the equity portfolio followed internal research indicating that a portfolio with a small percentage of equities would produce improved returns while reducing overall risk levels, because of the lack of full correlation in price movements of bonds and equities. The overall investment performance achieved in 2003 was a return of about 5.7% on average invested assets.

Business Review *(continued)*

The insurance intermediary operations of the group achieved an excellent 20% growth in turnover in 2003 with improved profits. This year included the first full year of our outsourcing contract in relation to the RAC Insure brand. The scope of this contract was expanded in 2003 and we now provide outsourced services in relation to the provision of commercial vehicle insurance and household insurance to RAC customers, as well as private motor insurance. Other notable achievements in the year include a contract to administer pet insurance products sold under the Argos brand. Also, early in 2004, an agreement has been reached with Norwich Union to provide a range of products and outsourced services to support NU Group brands.

A project was launched in 2003 to review the internal operational efficiencies in the intermediary business and several changes to processes have already been made which are expected to yield benefits in 2004.

The rapid pace of change in the regulatory environment has continued throughout 2003. Increased capital requirements for insurance companies, proposed in the FSA consultation paper CP190, will, if implemented, further increase the competitive disadvantage of UK insurers compared to those writing business in the UK from other EU countries, and increase opportunities for regulatory arbitrage. A significant proportion of UK motorists are now insured by insurers operating from Gibraltar and other EU locations.

From 2005 the FSA will take responsibility for regulation of insurance intermediaries. FSA involvement in intermediary regulation is the Government's response to implementing the EU Insurance Mediation Directive. While this legislation is intended to protect consumers, we fear that the burden of red tape it creates will lead to the closure of many smaller intermediaries, reducing consumer choice, while the costs of compliance will far outweigh the losses consumers would otherwise have suffered. A much simpler approach to protecting consumers could surely have been devised. Nevertheless, the BDML Group is well positioned to capitalise on market changes triggered by these regulatory developments.

We are delighted to report that BDML (Holdings) Limited has appeared in the Sunday Times Fast Track 100 league table of Britain's 100 fastest growing companies, published on 7 December. BDML, placed at 24th, is the largest financial services company appearing in this listing and one of only 29 companies to achieve a compound annual growth rate exceeding 100% for the period 1999 to 2002.

We would like to thank the staff of the group for their hard work and commitment through the year which have helped to consolidate the position of the BDML Group as a recognised provider of bespoke insurance and outsourcing solutions.

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.

EMPLOYEE INVOLVEMENT

The flow of information to staff has been maintained by our staff forums, newsletters, 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 2003 represented approximately 2 days of average daily purchases through the year (2002 - 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:

	2003	2002
	£000	£000
Dividends payable on preference shares	3	4

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 2003	At 31 December 2002 or later date of appointment
Mr A Ball	Ordinary	90,003	-
	"B" ordinary	-	90,000
Mr A Dunn	Ordinary	90,004	-
	"B" ordinary	-	90,000
Mr K Morris	Ordinary	90,003	-
	"B" ordinary		90,000
Mr S Lockwood	Ordinary	145,390	-
	"A" ordinary	-	30,000
	Preference	-	100,000
Mr A Lancaster		-	-
Mr J Kavanaugh (appointed 11 March 2003)		-	-

DONATIONS

During the year the group made charitable donations of £1,540 (2002 - £260).

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 17 to 20, 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

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 LLP have expressed their willingness to continue in office.

Signed by order of the board

Susan Towns

Mrs S Towns
Company Secretary

Date: 1 June 2004

BDML (HOLDINGS) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

YEAR ENDED 31 DECEMBER 2003

We have audited the financial statements of BDML (Holdings) Limited which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Cashflow Statement and related notes 1 to 30. These financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain assets, 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 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's and group's affairs as at 31 December 2003 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: 1/6/04

BDML (HOLDINGS) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	Year ended 31 December 2003	Year ended 31 December 2002
		£000	£000
Gross premiums written	2	63,919	43,620
Outwards reinsurance premiums		(7,995)	(5,639)
		55,924	37,981
Change in the gross and net provision for unearned premiums		(9,999)	8,091
Earned premiums, net of reinsurance		45,925	46,072
Claims paid			
- Gross amount		(37,365)	(32,465)
- Reinsurer's share		2,175	1,029
		(35,190)	(31,436)
Change in the provision for claims			
- Gross amount		(2,711)	(8,543)
- Reinsurer's share		6,780	7,286
		4,069	(1,257)
Claims incurred, net of reinsurance		(31,121)	(32,693)
Net operating expenses	3	(10,025)	(10,085)
Total technical charges		(41,146)	(42,778)
Balance on technical account		4,779	3,294

Notes 1 to 30 form part of these financial statements.

BDML (HOLDINGS) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT *(continued)*

NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Balance on technical account		4,779	3,294
Investment income	4	10,167	7,837
Unrealised (losses)/gains on investments	4	(77)	533
Realised losses on investments	4	(2,177)	(558)
Investment expenses and charges	4	(905)	(1,115)
		7,008	6,697
Share of associate		85	130
Other income	7	14,466	12,014
Other charges	8	(14,608)	(11,637)
Amortisation of goodwill		-	9,734
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	9	11,730	20,232
Tax on profit on ordinary activities	10	(3,565)	(3,277)
PROFIT FOR THE FINANCIAL YEAR AFTER TAX		8,165	16,955
Minority interest		(75)	18
PROFIT FOR THE FINANCIAL YEAR		8,090	16,973
Dividends – non equity	11	(3)	(4)
RETAINED PROFIT		8,087	16,969

All the activities of the group are classed as continuing.

Notes 1 to 30 form part of these financial statements.

BDML (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2003

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Profit for the year	8,087	16,969
Unrealised loss on revaluation of investment	-	(67)
Total recognised gains and losses for the year	8,087	16,902

Notes 1 to 30 form part of these financial statements

BDML (HOLDINGS) LIMITED
CONSOLIDATED BALANCE SHEET
31 DECEMBER 2003

	Note	2003		2002	
		£000	£000	£000	£000
ASSETS					
Intangible assets	12		4,128		4,168
Investments:					
Land and buildings	13	8,975		7,175	
Other financial investments	14	136,309		133,055	
Investment in associate	15	-		232	
Other investments	15	-		-	
			145,284		140,462
Reinsurers' share of technical provisions:					
Claims outstanding			27,925		21,145
Debtors:					
Debtors arising out of direct insurance operations – intermediaries		4,051		3,069	
Debtors arising out of outwards reinsurance operations		-		53	
Securitised insurance debtors	17	11,942		12,069	
Less: non-returnable proceeds	17	(10,688)		(10,556)	
		1,254		1,513	
Other debtors	18	18,322		4,427	
			23,627		9,062
Other assets					
Tangible assets	19	924		1,071	
Cash at bank and in hand		6,419		4,607	
			7,343		5,678
Prepayments & accrued income:					
Accrued interest and rent		1,021		910	
Deferred acquisition costs		5,388		4,203	
Other prepayments and accrued income	20	834		912	
			7,243		6,025
TOTAL ASSETS			215,550		186,540

Notes 1 to 30 form part of these financial statements.

BDML (HOLDINGS) LIMITED

CONSOLIDATED BALANCE SHEET *(continued)*

31 DECEMBER 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
LIABILITIES					
Share capital and reserves					
Called up share capital	21	415		400	
Profit and loss account	22	25,511		17,424	
Shareholders' funds	23		25,926		17,824
Equity shareholders' funds	23		25,926		17,724
Non-equity shareholders' funds	23		-		100
Minority interests			115		-
Technical provisions					
Provision for unearned premiums		32,088		22,088	
Claims outstanding		118,770		115,896	
			150,858		137,984
Provisions for other risks and charges					
Deferred tax	24	9		18	
Unearned charges		2,109		1,190	
			2,118		1,208
Creditors: amounts falling due within one year					
Creditors arising out of direct insurance operations		30		29	
Creditors arising out of reinsurance operations		3,152		-	
Other creditors	25	26,137		15,259	
			29,319		15,288
Creditors: amounts falling due after more than one year					
Other creditors	26		2,000		9,003
Accruals and deferred income	27		5,214		5,233
TOTAL LIABILITIES			215,550		186,540

These financial statements were approved by the directors on 1.6.04 and are signed on their behalf by:

Mr A Dunn
Director

Mr A Ball
Director

Notes 1 to 30 form part of these financial statements.

BDML (HOLDINGS) LIMITED

BALANCE SHEET

31 DECEMBER 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
FIXED ASSETS					
Investments	**15**		17,822		17,729
CURRENT ASSETS					
Debtors	**18**	380		2	
Cash at bank and in hand		209		-	
		589		2	
CREDITORS: Amounts falling due within one year	**25**	(8,170)		(6,302)	
NET CURRENT LIABILITIES			(7,581)		(6,300)
TOTAL ASSETS LESS CURRENT LIABILITIES			10,241		11,429
CREDITORS: Amounts falling due after more than one year	**27**		2,000		9,003
CAPITAL AND RESERVES					
Called-up share capital	**21**	415		400	
Profit and loss account	**22**	7,826		2,026	
SHAREHOLDERS' FUNDS	**23**		8,241		2,426
			10,241		11,429
Equity shareholders' funds	**23**		8,241		2,326
Non-equity shareholders' funds	**23**		-		100
			8,241		2,426

These financial statements were approved by the directors on 1.6.04 and are signed on their behalf by:

Mr A Dunn
Director

Mr A Ball
Director

Notes 1 to 30 form part of these financial statements.

BDML (HOLDINGS) LIMITED

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2003

	2003		2002 (restated)	
	£000	**£000**	**£000**	**£000**
Net cash inflow from operating activities		11,926		14,628
Returns on investments and servicing of finance				
Interest paid	(780)		(990)	
Non-equity dividends paid	(6)		-	
Finance raising costs	-		(268)	
Net cash outflow from returns on investments and servicing of finance		(786)		(1,258)
Taxation				
Corporation tax paid	(4,202)		(3,755)	
Taxation paid		(4,202)		(3,755)
Capital expenditure				
Purchase of tangible fixed assets	(181)		(517)	
Sale of tangible fixed assets	20		10	
Net cash outflow from capital expenditure		(161)		(507)
Acquisition and disposals				
Acquisition of subsidiary	(84)		(6,919)	
Deferred consideration paid	(2,250)		(2,250)	
Bank and cash acquired with subsidiaries	320		(66)	
Part acquisition of subsidiary	(34)		(35)	
Part disposal of subsidiaries	18		-	
Acquisition of associated undertaking	-		(62)	
Net cash outflow from acquisitions and disposals		(2,030)		(9,332)
Net cash inflow/(outflow) before financing		4,747		(224)
Financing				
Issue of new non-equity shares	-		100	
Issue of equity shares	15		-	
Increase in bank loan	-		7,279	
Repayment of bank loans	(4,908)		(1,816)	
Net cash (outflow)/inflow from financing		(4,893)		5,563
(Decrease)/increase in cash in the year		(146)		5,339

Notes 1 to 30 form part of these financial statements.

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003	2002 (restated)
	£000	£000
Operating profit before tax	11,730	20,232
Depreciation	319	333
Amortisation of positive goodwill	230	230
Amortisation of negative goodwill	-	(9,734)
Loss on sale of fixed assets	3	3
Profit on part disposal of subsidiary	(18)	-
Realised and unrealised loss on other investments	4,054	25
Unrealised gain on investment properties	(1,800)	(544)
Movement in value of associate	(60)	(52)
Interest payable	869	1,072
(Increase)/decrease in debtors	(13,850)	3,562
(Decrease)/increase in non recourse financing	(259)	118
Increase in prepayments	(1,214)	(734)
Increase in technical provisions	12,874	318
Increase in reinsurer's share of technical provisions	(6,780)	(7,165)
Increase in creditors	4,011	4,062
Increase in accruals	898	2,610
Increase in other provisions	919	209
Provision for funding of loss making subsidiary	-	16
Impairment in value of investment	-	67
Net cash inflow from operating activities	11,926	14,628

CASH FLOWS WERE INVESTED AS FOLLOWS:

	2003	2003	2002	2002
	£000	£000	£000	£000
(Decrease)/increase in cash holdings		(7,454)		2,614
Net portfolio investment:				
Fixed income securities	497		(1,956)	
Equities	6,811		-	
Purchase of investment properties	-		4,681	
		7,308		2,725
Net investment in cash flows		(146)		5,339

Notes 1 to 30 form part of these financial statements.

BDML (HOLDINGS) LIMITED

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2003

MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	2003	2003	2002 (restated)	2002 (restated)
	£000	£000	£000	£000
Net cash flow for the year	(7,454)		2,614	
Cash flow:				
Portfolio investments	7,308		2,167	
Decrease/(increase) in loans	4,908		(5,463)	
		4,762		(682)
Acquired with subsidiary		-		136,986
Changes in market value		(2,254)		1,077
		2,508		137,381
Finance raising costs		(89)		186
Portfolio investments net of financing at 1 January 2003		134,784		(2,783)
Portfolio investments net of financing at 31 December 2003		137,203		134,784

MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	At 1 Jan 2003 (restated)	Cashflow	Non cash movement	Changes to market values	At 31 Dec 2003
	£000	£000	£000	£000	£000
Cash at bank and in hand	4,607	1,812	-	-	6,419
Bank overdraft	(1,514)	734	-	-	(780)
Bank overdraft in respect of premium financing activities	-	(10,000)	-	-	(10,000)
Fixed income securities	133,055	497	-	(4,643)	128,909
Equities	-	6,811	-	589	7,400
Investment properties	7,175	-	-	1,800	8,975
Loans due within one year	(1,786)	155	(89)	-	(1,720)
Loans due after one year	(6,753)	4,753	-	-	(2,000)
	134,784	4,762	(89)	(2,254)	137,203

Following the year end a subsidiary company repaid the overdraft of £10,000,000 after entering into an agreement to securitise further customer receivables.

The comparatives have been restated in order to reclassify certain balances. This has had no impact on the profit of the company or group.

Notes 1 to 30 form part of these financial statements.

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 on Accounting for Insurance Business 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 2003 and exclude 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. On disposal, or part disposal, of a subsidiary undertaking any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on disposal.

The Companies Act 1985 normally requires goodwill arising on the acquisition of a subsidiary undertaking to be calculated as the difference between total acquisition costs of the undertaking and the group's share of the identifiable assets and liabilities at the date it became a subsidiary undertaking. FRS 2 recognises that, where an investment in an associated undertaking is increased and becomes a subsidiary undertaking, in order to show a true and fair view goodwill should be calculated on each purchase as the difference between the cost of the purchase and the fair value at the date of that purchase. In the opinion of the directors the treatment of the acquisition on a piecemeal basis is the most appropriate. The financial effect of this departure, which was adopted in respect of the acquisition of further shares in Thornside Limited, is shown in note 15.

1. ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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.

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, being 7 years.

Investments

Investments are shown in the balance sheet as follows:

(i) Listed securities and equities 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

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.

1. ACCOUNTING POLICIES *(continued)*

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. All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes, duties and levies thereon. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or indirect reinsurance business being reinsured.

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) The provision of claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.
The provision of claims outstanding is based on information available at the balance sheet date. Significant delays are experienced in the notification and settlement of certain claims, accordingly the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business of later years.

(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.

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.

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.

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.

2. SEGMENTAL INFORMATION

Gross written premiums are attributable to the principal activities of the group which arose wholly within the United Kingdom.

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

3. NET OPERATING EXPENSES

	Year ended 31 December 2003	Year ended 31 December 2002
	£000	£000
Gross written commission	8,014	5,349
Other acquisition costs	2,640	2,423
Change in deferred acquisition costs	(1,185)	645
Administrative expenses	556	1,668
	10,025	10,085

4. INVESTMENT RETURN

	Year ended 31 December 2003	Year ended 31 December 2002
	£000	£000
Investment income:		
Income from other investments	10,167	7,837
Investment expenses and charges:		
Bank interest payable	(350)	(420)
Loan interest payable	(420)	(561)
Amortisation of finance costs	(89)	(82)
Other interest payable	(10)	(9)
Investment management expenses	(36)	(43)
	(905)	(1,115)
Losses on the realisation of investments	(2,177)	(558)
Unrealised (losses)/gains on investments	(77)	533
	7,008	6,697

5. PARTICULARS OF EMPLOYEES

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

	2003	2002
	No.	No.
Operations and management	447	452

5. PARTICULARS OF EMPLOYEES *(continued)*

The aggregate payroll costs of the above were:

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Wages and salaries	8,970	6,684
Social security costs	862	560
Other pension costs	317	306
Other staff costs	21	17
	10,170	7,567

6. DIRECTORS' EMOLUMENTS

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

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Emoluments receivable	1,826	506

Emoluments of the highest paid director:

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Emoluments receivable	576	165

7. OTHER INCOME

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Insurance intermediary group income	14,423	12,014
Other income	43	-
	14,466	12,014

8. OTHER CHARGES

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Insurance intermediary group expenses	12,815	10,928
Other expenses	1,793	709
	14,608	11,637

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £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	319	333
Auditors remuneration - audit services	75	69
- non audit services	30	36
Loss on disposal of fixed assets	3	3
Impairment in value of unlisted investments	-	67
Profit on disposal of shares in subsidiary undertaking	(18)	-
Provision for funding of loss making subsidiary	-	18
Release of provision for funding of loss making subsidiary	(26)	-

10. TAX ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of current period tax charge

	Year ended 31 December 2003 £000	Year ended 31 December 2002 £000
Current tax:		
In respect of the year:		
UK corporation tax based on the results for the year at 30% (2002 – 30%)	3,612	3,246
Share of associated undertakings tax charge	26	29
Adjustments in respect of previous years	(64)	20
Total current tax	3,574	3,295
Deferred tax:		
Decrease in deferred tax provision (note 24)		
Capital allowances	(9)	(18)
Tax on profit on ordinary activities	3,565	3,277

10. TAX ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

b) Factors affecting current year tax charge

The UK standard rate of corporation tax is 30% (2002 – 30%), whereas the current tax assessed for the year ended 31 December 2003 as a percentage of profit before tax is 30.4% (2002 – 16.2%). The reasons for this difference are explained below:

	2003 %	2002 %
Current tax on profit on ordinary activities calculated at the standard rate of corporation tax in the UK of 30%	30.0	30.0
Depreciation for the year in excess of capital allowances	(0.4)	(0.4)
Income not taxable	(0.1)	-
Expenses not deductible for tax purposes	1.0	0.6
Timing differences	0.7	0.2
Losses (brought forward)/carried forward	(0.1)	0.2
Consolidation adjustments	(0.1)	(14.4)
Associated company profits	(0.2)	(0.2)
UK corporation tax charge for the year	30.8	16.0
Associated company's tax charge	0.2	0.1
Adjustments in respect of previous years	(0.6)	0.1
Current tax charge in the year	30.4	16.2

c) Factors affecting future tax charges

The impact of deferred tax can be seen in note 24.

11. DIVIDENDS – NON EQUITY

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

	2003 £000	2002 £000
Dividend paid and proposed on preference shares	3	4

12. INTANGIBLE FIXED ASSETS - GROUP

	Book of business £000	Goodwill on acquisition £000	Negative goodwill on acquisition £000	Total £000
COST				
At 1 January 2003	1,612	3,592	(9,734)	(4,530)
On acquisition	-	191	-	191
At 31 December 2003	1,612	3,783	(9,734)	(4,339)
AMORTISATION				
At 1 January 2003	1,036	-	(9,734)	(8,698)
Charge for the year	231	-	-	231
At 31 December 2003	1,267	-	(9,734)	(8,467)
NET BOOK VALUE				
At 31 December 2003	345	3,783	-	4,128
At 31 December 2002	576	3,592	-	4,168

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

13. INVESTMENTS – LAND AND BUILDINGS

GROUP	Market value 2003 £000	Market value 2002 £000	Historical cost 2003 £000	Historical cost 2002 £000
Land and buildings:				
Properties occupied by the group, freehold	4,141	3,286	3,990	3,496
Other investment properties, freehold	4,834	3,889	2,460	2,954
	8,975	7,175	6,450	6,450

Freehold land and buildings were valued at open market value on 3 March 2003 and 11 October 2002 by Hughes Ellard Limited.

14. INVESTMENTS – OTHER FINANCIAL INVESTMENTS

GROUP	Market value 2003 £000	Market value 2002 £000	Historical cost 2003 £000	Historical cost 2002 £000
Other financial investments:				
Shares and other variable yield securities and units in unit trusts				
- Listed	7,400	-	7,065	-
Debt securities and other fixed income securities – Listed				
- At current value	128,909	133,055	132,294	133,231
	136,309	133,055	139,359	133,321

15. INVESTMENTS

COMPANY	Unlisted shares in associated undertakings £000	Unlisted shares in group undertakings £000	Other unlisted investments £000	Total £000
Cost or valuation				
At 1 January 2003	125	17,604	217	17,946
Additions	-	118	-	118
Disposals	-	(25)	-	(25)
Reclassification of associated undertaking to subsidiary undertaking	(125)	125	-	-
At 31 December 2003	-	17,822	217	18,039
Impairment in value				
At 1 January 2003 and 31 December 2003	-	-	217	217
Net Book Value				
At 31 December 2003	-	17,822	-	17,822
At 31 December 2002	125	17,604	-	17,729

15. INVESTMENTS *(continued)*

The historical cost of the other unlisted investments is:

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Cost	150	150	150	150
Impairment in value	(150)	(150)	(150)	(150)
Historical cost net book value	-	-	-	-

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	66	Provision of services to insurance companies and insurance brokers
Thornside Limited	60	Pet insurance intermediary

In addition the company owns 100% of the issued share capital of Insuremythings.com Limited and 100% of the issued share capital of Insuremythings.co.uk Limited, both 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 28 "A" ordinary shares in Ultimate Insurance Solutions Limited. The company also disposed of 36 'A' Ordinary Shares during the year.

During the year the company entered into an agreement to sell the remaining share capital held in Ultimate Insurance Solutions Limited contingent on certain future events.

As part of an acquisition agreement in respect 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.

15. INVESTMENTS *(continued)*

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 fully impaired the value of these investments in the previous year.

GROUP	Associated undertaking £000	Unlisted investment £000
Cost or valuation		
At 1 January 2003	125	217
Reclassification to subsidiary undertaking	(125)	-
At 31 December 2003	-	217
Share of retained profit		
At 1 January 2003	107	-
Share of retained profit for the year	60	-
Reclassification to subsidiary undertaking	(167)	-
At 31 December 2003	-	-
Impairment in value		
At 1 January 2003	-	217
Provision in the year	-	-
At 31 December 2003	-	217
Total		
At 31 December 2003	-	-
At 31 December 2002	232	-

During the year the company acquired a further 15% investment in Thornside Limited (2002 – 15%), increasing the company's shareholding to 60%. Consequently, Thornside Limited was reclassified from an associated undertaking to a subsidiary undertaking. Goodwill of £56,000 arose in respect of this tranche of the acquisition (calculated on a piecemeal basis as permitted by FRS 2 'Accounting for Subsidiary Undertakings') based on the fair value of the net assets acquired. This does not represent a substantial acquisition, consequently no fair value table has been disclosed. Included within the carrying value of the associated undertaking is goodwill arising on the acquisition of £nil (2002 - £104,000).

As stated in the accounting policies the group has accounted for the purchase of additional shares as a piecemeal acquisition in accordance with FRS 2. If goodwill had been calculated in accordance with the Companies Act 1985, goodwill of £100,000 would have been generated rather than £160,000. As at 31 December 2003, the effect on the balance sheet would have been to reduce intangible assets by £60,000 but there would have been no effect on the profit and loss account.

16. REINSURANCE

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

If the development of the 2001 and prior years is favourable and the aggregate losses fall below the attachment point of the reinsurance contract, there is an obligation in respect of this contract to pay an additional reinsurance premium to Norwich Union Insurance Limited.

17. INSURANCE DEBTORS SUBJECT TO A SECURITISATION AGREEMENT

In October 2003, 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. The terms of the agreement under which this takes place includes provisions that the purchaser has no recourse to BDML Connect Limited. The company is not obliged to support any losses, nor does it intend to.

Principal and interest is repayable from the customer receivables. At 31 December 2003 the amount of customer receivables covered by this agreement was £11,941,766 (2002 - £12,069,325) raising funds of £10,687,883 (2002 - £10,556,095) 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 2003 was £947,760 (2002 - £1,321,496).

18. OTHER DEBTORS

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Other trade debtors	17,962	4,083	-	-
Amounts due from group undertakings	-	-	318	-
Other debtors	360	344	29	2
Prepayments and accrued income	-	-	33	-
	18,322	4,427	380	2

19. TANGIBLE FIXED ASSETS – GROUP

	Motor Vehicles £000	Office Equipment £000	IT Equipment £000	Fixtures & Fittings £000	Total £000
COST					
At 1 January 2003	135	720	2,859	595	4,309
Acquired with subsidiary	26	-	-	16	42
Additions	-	69	23	89	181
Disposals	(135)	(13)	(112)	-	(260)
At 31 December 2003	26	776	2,770	700	4,272
DEPRECIATION					
At 1 January 2003	135	324	2,297	482	3,238
Acquired with subsidiary	21	-	-	7	28
Charge for the year	4	105	162	48	319
On disposals	(135)	-	(102)	-	(237)
At 31 December 2003	25	429	2,357	537	3,348
NET BOOK VALUE					
At 31 December 2003	1	347	413	163	924
At 31 December 2002	-	396	562	113	1,071

20. OTHER PREPAYMENTS AND ACCRUED INCOME

Included within other prepayments and accrued income is an amount of £139,916 (2002 - £279,831) due after more than one year.

21. SHARE CAPITAL

Authorised, allotted, called up and fully paid:

	2003 £000	2002 £000
415,400 Ordinary shares of £1 each	415	-
30,000 "A" Ordinary shares of £1 each	-	30
270,000 "B" Ordinary shares of £1 each	-	270
100,000 10% cumulative redeemable preference shares of £1 each	-	100
	415	400

On 28 August 2003 the company passed a special resolution to re-designate the 'A' ordinary shares, 'B' ordinary shares and cumulative redeemable preference shares as Ordinary shares of £1 each.

On the same date the authorised share capital was increased to £415,400, comprising 415,400 Ordinary shares of £1 each, and 15,400 Ordinary shares of £1 each were issued for cash at par.

22. OTHER RESERVES

	Profit and loss account £000
Group	
At 1 January 2003	17,424
Profit for the year	8,087
At 31 December 2003	25,511
Company	
At 1 January 2003	2,026
Profit for the year	5,800
At 31 December 2003	7,826

23. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£0000	£000
Opening shareholders' funds	17,824	822	2,426	(611)
Profit for the year	8,087	16,969	5,800	3,004
New preference share capital subscribed	-	100	-	100
New ordinary share capital subscribed	15	-	15	-
Decrease in revaluation reserve	-	(67)	-	(67)
Closing shareholders' funds	25,926	17,824	8,241	2,426

Included in the 2002 figures above are closing shareholders' non-equity funds of £100,000 for both the group and the company.

24. DEFERRED TAXATION

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

	2003	2002
	£000	£000
Provision brought forward	18	36
Decrease in provision	(9)	(18)
Provision carried forward	9	18

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

Group	Provided		Unprovided	
	2003	2002	2003	2002
	£000	£000	£0000	£000
Accelerated capital allowances	9	18	(3)	-
Tax losses	-	-	(68)	(51)
Other timing differences	-	-	(85)	(44)
	9	18	(156)	(95)

Company	Provided		Unprovided	
	2003	2002	2003	2002
	£000	£000	£0000	£000
Tax losses	-	-	(68)	(39)

25. OTHER CREDITORS: Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£0000	£000
Bank loans and overdrafts	2,500	3,300	1,720	2,652
Bank overdraft in respect of premium financing activities	10,000	-	-	-
Other loans	2,250	2,250	2,250	2,250
Other insurer balances	7,440	6,200	-	-
Amounts owed to group undertakings	-	-	2,703	1,278
Amounts owed to associated undertaking	-	30	-	-
Other taxation and social security	953	571	-	-
Other creditors	1,125	543	326	63
Corporation tax	1,868	2,361	-	-
Dividends payable	1	4	1	4
Accruals and deferred income	-	-	1,170	55
	26,137	15,259	8,170	6,302

Bank borrowings are secured by fixed and floating charges over the assets of the companies to which they relate.

Following the year end a subsidiary company repaid the overdraft of £10,000,000 after entering into an agreement to securitise further customer receivables.

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

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£0000	£000
Bank loans	2,000	3,724	2,000	3,724
Other loans	-	2,250	-	2,250
Other creditors	-	3,029	-	3,029
	2,000	9,003	2,000	9,003

27. ACCRUALS AND DEFERRED INCOME

	2003	2002
GROUP	£000	£000
Accruals falling due within one year	5,085	4,895
Accruals falling due after more than one year	129	338
Total accruals and deferred income	5,214	5,233

28. CAPITAL INSTRUMENTS

Loans are repayable as follows:

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£0000	£000
In one year or less, or on demand	3,970	4,036	3,970	3,974
Between one and two years	400	3,974	400	3,974
Between two and five years	1,200	1,200	1,200	1,200
In five years or more	400	3,700	400	3,700
	5,970	12,910	5,970	12,848

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

Bank loan one

Repayable in 6 further annual instalments of £400,000. At 31 December 2003 £2.4 million is outstanding (2002 - £2.8 million). Interest on the loan is charged at 2% over bank base rate. The loan is secured by a fixed and floating charge over the assets of BDML (Holdings) Limited.

Bank loan two

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

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 £211,241 (2002 - £237,380) by Stephen J Lockwood & Company LLC, a company controlled by S Lockwood, a director of the company. As at 31 December 2003 £263,541 was due from the group (2002 - £49,850).

During the previous year the company issued loan notes totalling £2,900,000 to Stephen J Lockwood & Company LLC, which have been fully repaid during the year (2002 - £2,900,000 owed to Stephen J Lockwood & Company LLC).

Thornside Limited

During the year, BDML Connect Limited made sales of £41,000 (2002 - £34,000) to Thornside Limited, an associated company. BDML Connect Limited also made purchases of £67,000 (2002 - £70,000) from Thornside Limited during the year. At the year end a balance of £46,000 (2002 - £30,000) was owed to Thornside Limited.

During the year, Ultimate Insurance Solutions Limited made sales of £3,000 (2002 - £3,000) to Thornside Limited. At the year end a balance of £3,000 (2002 - £3,000) 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

In the opinion of the directors there is no one controlling party.