

Towergate Underwriting Group Limited

**Directors' report and financial statements
for the year ended 31 December 2004
Registered number 4043759**



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Directors' report and financial statements

Contents

Directors' report	1-3
Statement of directors' responsibilities	4
Report of the independent auditor to the members of Towergate Underwriting Group Limited	5
Profit and loss account	6
Balance sheet	7
Reconciliation of movements in shareholder's funds	8
Statement of total recognised gains and losses	8
Notes	9-21

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities and business review

The profit and loss account for the year is set out on page 6.

The principal activity of the Company during the year was the provision of insurance underwriting services. The Company's business comprises specialist insurance underwriting agencies in a range of non-standard and thereby non-commoditised market sectors.

On 30 June 2004, the Company acquired the business of Towergate Finch Professional Indemnity Limited together with its assets and liabilities from a fellow subsidiary within the Towergate Underwriting Limited ('TUL') group.

On 31 December 2004, the Company acquired three of the businesses that were purchased during the financial year together with their assets and liabilities from fellow subsidiaries within the Towergate Underwriting Limited ('TUL') group.

The consideration paid by the Company comprised the sum of the book value of the goodwill of each business, as estimated by the directors based on advice from the group's investment banking advisors. The consideration was initially held outstanding on inter-company account and subsequently discharged out of the proceeds of the issuance of shares to TUL.

The growth of the group's business as a whole during 2004, when adjusted for acquisitions and disposals was strong and is expected to continue to be so.

Political and charitable contributions

The company made charitable contributions of £3,526, political contributions £nil (2003: £Nil) during the year.

Proposed dividend

No dividends were paid or proposed during the year.

Directors and directors' interests

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

PG Cullum
PF Dyer
A Proverbs
NJ Crocker (resigned 27 February 2004)
K Harrison (resigned 12 January 2004)
J Reddi (appointed 17 March 2004)
DWW Torrance (appointed 17 March 2004)
T Johnson (appointed 13 April 2004)

Directors' report *(continued)*

The directors who held office at the end of the financial year had the following interests in the shares of group companies according to the register of directors' interests:

	Towergate Underwriting Limited			
	Ordinary Shares £1		Preference Shares £1	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003
PG Cullum	36,550	35,550	-	14,725
PF Dyer	5,700	6,000	-	129,500
A Proverbs	4,500	5,000	-	40,500
J Reddi	150	-	-	-
DWW Torrance	200	-	-	-
T Johnson	200	-	-	-

No director has been granted share options in the shares of the Company or other group companies.

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

Employment policies

The Company is committed to the participation and involvement of employees in the Company's business and to facilitating their personal development to its maximum potential.

Communication with employees concerning the objectives and performance of the Company is conducted through personal briefings and regular meetings, complemented by employee publications and presentations. Feedback is continually sought from staff on a variety of business, management and human resources issues. These communication tools provide employees with the opportunity to contribute to the everyday running of the business and to support the achievement of the Company's vision and business strategy.

It is the policy of the Company to give full and fair consideration to suitable applications for employment from disabled persons. Opportunities also exist for employees of the Company who become disabled to continue in their employment or to be trained for other positions within the Company.

Directors' report *(continued)*

Creditor policies

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

Auditors

In accordance with sections 379A and 386 of the Companies Act 1985, the company has dispensed with the resolution to appoint auditors annually.

By order of the board



P G Cullum
Director

11 July 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the independent auditor to the members of Towergate Underwriting Group Limited

We have audited the financial statements, on pages 6 to 21.

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 directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Re

31 August 2005

KPMG Audit Plc
*Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB*

Profit and Loss Account **for the year ended 31 December 2004**

	Note	2004	2004	2003	2003
		£	£	£	£
Turnover					
Continuing operations	2	43,991,110		7,543,212	
Acquisitions	2	2,054,208		-	
		<hr/>		<hr/>	
			46,045,318		7,543,212
Amortisation of goodwill			(6,367,368)		(339,078)
Administrative expenses			(38,969,718)		(6,713,128)
			<hr/>		<hr/>
Operating profit					
Continuing operations	2	699,504		491,006	
Acquisitions	2	8,728		-	
		<hr/>		<hr/>	
			708,232		491,006
Other interest receivable and similar income			833,600		87,682
Interest payable and similar charges	6		(20)		(217,708)
			<hr/>		<hr/>
Profit on ordinary activities before taxation	3		1,541,812		360,980
Tax on profit on ordinary activities	7		326,343		(689,616)
			<hr/>		<hr/>
Retained profit/(loss) for the financial year			1,868,155		(328,636)
			<hr/>		<hr/>

There is no difference between the profit on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

The notes on pages 9 to 21 form part of these financial statements.

Balance Sheet as at 31 December 2004

	<i>Note</i>	2004	2004	2003	2003
		£	£	£	£
Fixed assets					
Intangible assets	8	141,550,272		122,681,054	
Tangible assets	9	2,608,173		1,919,434	
Investments	10	27,679		27,185	
			144,186,124		124,627,673
Current assets					
Debtors	11	43,209,255		25,055,418	
Cash at bank and in hand		24,756,360		13,079,928	
		67,965,615		38,135,346	
Creditors: amounts falling due within one year	12	(59,169,749)		(34,235,983)	
Net current assets			8,795,866		3,899,363
Total assets less current liabilities			152,981,990		128,527,036
Creditors: amounts falling due after more than one year	13	(9,877,787)		(9,345,156)	
Provisions for liabilities and charges	14	(1,924,007)		(1,494,183)	
Net assets			141,180,196		117,687,697
Capital and reserves					
Called up share capital	17	138,389,547		116,988,003	
Profit and loss account	18	2,275,007		406,852	
Other Reserves	18	515,642		292,842	
Equity Shareholders' funds			141,180,196		117,687,697

The notes on pages 9 to 21 form part of these financial statements.

These financial statements were approved by the board of directors on 11 July 2005 and were signed on its behalf by:



P G Cullum
Director

**Reconciliation of movements in shareholder's funds
For the year ended 31 December 2004**

	2004 £	2003 £
Profit/(loss) for the financial year	1,868,155	(328,636)
Dividends	-	-
	<hr/>	<hr/>
	1,868,155	(328,636)
 Increase in share capital	 21,401,544	 116,988,001
Increase in other reserves	222,800	292,842
	<hr/>	<hr/>
Net increase in shareholder's funds	23,492,499	116,952,207
 Opening shareholder's funds	 117,687,697	 735,490
	<hr/>	<hr/>
Closing shareholder's funds	141,180,196	117,687,697
	<hr/>	<hr/>

**Statement of total recognised gains and losses
For the year ended 31 December 2004**

	2004 £	2003 £
Profit/(loss) for the financial year	1,868,155	(328,636)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	1,868,155	(328,636)
	<hr/>	<hr/>
Total recognised gains and losses relating to the year as above	1,868,155	(328,636)
Prior year adjustment	-	(90,945)
	<hr/>	<hr/>
Total gains and losses recognised since last annual report	1,868,155	(419,581)
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and under historical cost accounting rules.

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Towergate Underwriting Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Towergate Underwriting Limited within which this Company is included, can be obtained from the address given in note 22.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on acquisition is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. This is generally taken as twenty years.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments on a straight line basis over their estimated useful economic lives as follows:

Leasehold improvements	-	25% per annum
Computer equipment	-	25% per annum
Fixtures and fittings	-	15% per annum
Furniture and equipment	-	20% per annum
Motor vehicles	-	25% per annum

No depreciation is provided on freehold land and buildings.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes (continued)

1 Accounting policies (continued)

Post retirement benefits

Towergate Underwriting Limited operates a defined contribution pension scheme, which is open to employees of the Company. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover comprises net commission receivable on business incepting up to the year end. To the extent that the Company is contractually obliged to provide services after this date, a suitable proportion of income is deferred and recognised over the life of the relevant contracts to ensure that revenue appropriately reflects the cost of fulfilment of these obligations. Profit commission is recognised when notified.

2 Turnover

Turnover consists entirely of sales made in the United Kingdom.

3 Profit on ordinary activities before taxation

	2004 £	2003 £
Profit on ordinary activities before taxation is stated:		
After charging		
Auditors' remuneration:		
- Audit services	177,500	22,500
- Non audit services	-	-
Depreciation and other amounts written off tangible fixed assets: Owned	738,807	180,445
Amortisation of goodwill	6,367,367	339,078
Operating lease rentals	890,200	-
Profit on disposal of fixed assets	(107,388)	-

Notes (continued)

4 Remuneration of directors

	2004	2003
	£	£
Directors' emoluments	-	79,828
Company contributions to money purchase pension schemes	-	-
	<hr/>	<hr/>
	-	79,828
	<hr/>	<hr/>

Number of Directors 2004	Number of Directors 2003
--------------------------------	--------------------------------

Retirement benefits are accruing to the following number of directors under:

Money purchase schemes	-	-
	<hr/>	<hr/>

The emoluments of Mr Cullum, Mr Dyer, Mr Proverbs, Mr Torrance, Mr Reddi and Mr Johnson are paid by Towergate Underwriting Limited, which makes no recharge to the Company. Messrs Cullum, Dyer, Proverbs, Torrance, Reddi and Johnson are directors of the ultimate parent Company and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of the above named directors. Their total emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the ultimate parent Company.

5 Staff numbers and costs

The average number of persons employed by the Company during the year, analysed by category, was as follows:

	Number of employees 2004	Number of employees 2003
Administration	477	92
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£	£
Wages and salaries	11,635,586	2,065,290
Social security costs	1,180,805	194,893
Pension costs	450,203	57,475
	<hr/>	<hr/>
	13,266,594	2,317,658
	<hr/>	<hr/>

Notes (continued)

6 Interest payable and similar charges

	2004 £	2003 £
On other loans	20	217,708
	<u>20</u>	<u>217,708</u>

7 Taxation

	2004 £	2003 £
UK Corporation tax at 30%	890,224	231,567
Adjustments in respect of prior periods	(1,216,567)	458,049
	<u>(326,343)</u>	<u>689,616</u>

The current tax charge for the year is higher (2003: higher) than the standard rate of corporation tax of 30% (2003: 30%) The differences are explained below.

	2004 £	2003 £
Current tax reconciliation		
Profit on ordinary activities before tax	1,541,812	360,980
Current tax at 30%	462,543	108,294
Effects of:		
Expenses not deductible for tax purposes	47,166	5,603
Amortisation	433,166	101,723
Group relief	(47,080)	-
Depreciation in excess of capital allowances	(5,571)	15,947
	<u>890,224</u>	<u>231,567</u>

There are no known factors that may affect future tax charges (2003: none)

Notes (continued)

8 Intangible fixed assets

	Purchased Goodwill	Businesses purchased from Towergate group companies		Total
		Recognised	Not previously recognised	
	£	£	£	£
Cost				
At beginning of the year	6,797,675	14,106,533	102,881,468	123,785,676
Increase	-	289,874	-	289,874
Additions	3,453,082	1,306,014	20,205,530	24,964,626
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	10,250,757	15,702,421	123,086,998	149,040,176
	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation				
At beginning of the year	1,104,622	-	-	1,104,622
Charged in year	433,774	744,342	5,207,166	6,385,282
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,538,396	744,342	5,207,166	7,489,904
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
At 31 December 2004	8,712,361	14,958,079	117,879,832	141,550,272
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	5,693,053	14,106,533	102,881,468	122,681,054
	<hr/>	<hr/>	<hr/>	<hr/>

All goodwill arising on acquisition is amortised over a twenty-year period.

Notes (continued)

9 Tangible fixed assets

	Land and buildings	Leasehold Improvements	Motor Vehicles	Computer equipment	Furniture & equipment	Fixtures & Fittings	Total
	£	£	£	£	£	£	£
Cost							
At beginning of year	310,325	53,180	136,786	2,075,381	1,014,499	474,378	4,064,549
Transfers	-	-	-	-	(161,652)	161,652	-
Additions from Towergate Group Companies	300,000	137,077	43,003	1,127,059	268,717	207,639	2,083,495
Additions	-	51,044	-	1,008,293	49,616	58,967	1,167,920
Disposals	(310,325)	-	(89,761)	(471,089)	(8,685)	-	(879,860)
At end of year	300,000	241,301	90,028	3,739,644	1,162,495	902,636	6,436,104
Depreciation							
At beginning of year	50,325	17,808	124,441	1,169,367	477,625	305,549	2,145,115
Transfers	-	-	-	-	74,467	(74,467)	-
Additions from Towergate Group Companies	-	72,421	29,428	899,297	216,687	122,049	1,339,882
Depreciation on disposals	(50,325)	-	(87,496)	(253,558)	(4,494)	-	(395,873)
Charge for year	-	10,866	4,974	490,535	94,831	137,601	738,807
At end of year	-	101,095	71,347	2,305,641	859,116	490,732	3,827,931
Net book value							
At 31 December 2004	300,000	140,206	18,681	1,434,003	303,379	411,904	2,608,173
At 31 December 2003	260,000	35,372	12,345	906,014	536,874	168,829	1,919,434

The freehold land and buildings is stated at the valuation, on an open market basis, undertaken by Barbers, Chartered Surveyors on 20 July 2004. No depreciation has been provided on freehold buildings because the directors are of the opinion that the property will maintain its value in future years.

Notes (continued)

10 Investments

	Listed Investments	Shares in Group Undertakings	Investment properties overseas	Total £
Company				
Cost (or valuation)				
At beginning of year	-	21,985	17,203	39,188
Additions from Towergate Group Companies	494	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	494	21,985	17,203	39,682
	<hr/>	<hr/>	<hr/>	<hr/>
Provisions				
At beginning of year	-	-	(12,003)	(12,003)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	-	-	(12,003)	(12,003)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2004	494	21,985	5,200	27,679
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	-	21,985	5,200	27,185
	<hr/>	<hr/>	<hr/>	<hr/>

The listed investment consists of 200 10 pence ordinary shares in Friends Provident. The listed investment is held at market value.

The undertakings in which the company's interest at the year end is more than 20% are as follows:

	Country of Incorporation	Principal activity
Carrington International Insurance Brokers Limited	England	Dormant
Dickinson General Insurance Services Limited	England	Dormant
Highland & Islands Insurance Services Limited	England	Dormant
Towergate Stafford Knight Insurance Services Limited	England	Dormant

Except where indicated 100% of the voting rights are held directly or indirectly by Towergate Underwriting Group Limited. All subsidiary undertakings have the same period end as Towergate Underwriting Limited.

Notes (continued)

11 Debtors

	2004 £	2003 £
Trade debtors	-	3,042
Insurance debtors	37,321,023	19,237,127
Amounts owed by group undertakings	4,342,254	4,019,120
Other debtors	186,297	926,009
Prepayments and accrued income	1,359,681	870,120
	<hr/> 43,209,255	<hr/> 25,055,418

12 Creditors: amounts falling due within one year

	2004 £	2003 £
Obligations under finance leases and hire purchase contracts	-	3,994
Trade creditors	-	66,978
Insurance creditors	52,914,390	29,227,704
Amounts owed to group undertakings	44,104	230,912
Corporation tax	1,738,717	1,737,383
Taxation and social security	419,931	224,964
Other creditors	768,708	446,541
Accruals and deferred income	2,609,003	1,780,197
Deferred consideration	674,896	517,310
	<hr/> 59,169,749	<hr/> 34,235,983

Notes (continued)

13 Creditors: amounts falling due after one year

	2004 £	2003 £
Amounts owed to group undertakings	9,300,000	9,300,000
Deferred consideration	577,787	45,156
	<u>9,877,787</u>	<u>9,345,156</u>

Analysis of debt:

	2004 £	2003 £
Debt can be analysed as falling due:		
In one year or less, or on demand	9,723,719	9,345,156
Between one and two years	154,068	-
	<u>9,877,787</u>	<u>9,345,156</u>

14 Provisions for liabilities and charges

	FRS 5 Provision £	Total £
At beginning of year	1,494,183	1,494,183
Additions from Towergate Group Companies	301,466	301,466
Charge to the profit and loss account for the year	128,358	128,358
	<u>1,924,007</u>	<u>1,924,007</u>
At end of year	1,924,007	1,924,007

No deferred tax liability has been recognised in respect of the differences between accumulated depreciation and capital allowances. The deferred tax liability would be £14,201 (2003: asset of £15,626).

Notes (continued)

15 Acquisitions (net assets)

On 31 December 2004 (30 June 2004 for Towergate Finch Professional Indemnity Limited) the Company acquired the book of business from various Towergate Group Companies as detailed below. The consideration which initially was left outstanding on the inter-company account and has subsequently been discharged in full.

	Total assets £	Liabilities £	Net Assets £	Goodwill £	Consideration £
Towergate Finch Professional Indemnity Limited	7,097,968	(7,097,968)	-	3,476,000	3,476,000
Agricultural Insurance Underwriting Agency Limited	7,203,927	(7,203,927)	-	15,000,000	15,000,000
Innpak Limited	1,231,067	(1,231,067)	-	985,709	985,709
Mardon Insurance Brokers (UK) Limited	1,038,472	(1,038,472)	-	2,049,835	2,049,835
	<u>16,571,434</u>	<u>(16,571,434)</u>	<u>-</u>	<u>21,511,544</u>	<u>21,511,544</u>

Satisfied by intercompany account subsequently settled 21,511,544

16 Acquisitions (fair value)

The book value of the assets and liabilities acquired may be analysed as follows. No fair value adjustments arose in relation to tangible assets and liabilities.

	Tangible assets £	Investments £	Debtors £	Cash at bank and in hand £	Creditors due within one year £	Creditors due after more than one year £	Provisions for liabilities and charges £	Net assets £
Towergate Finch Professional Indemnity Limited	275,849	-	4,378,486	2,443,633	(7,062,066)	-	(35,902)	-
Agricultural Insurance Underwriting Agency Limited	201,020	-	3,800,129	3,202,778	(6,955,986)	-	(247,941)	-
Innpak Limited	27,231	-	885,621	318,215	(1,231,067)	-	-	-
Mardon Insurance Brokers (UK) Limited	126,716	495	288,558	622,703	(1,020,849)	-	(17,623)	-
	<u>630,816</u>	<u>495</u>	<u>9,352,794</u>	<u>6,587,329</u>	<u>(16,269,968)</u>	<u>-</u>	<u>(301,466)</u>	<u>-</u>

The results for the period attributable to Towergate Finch Professional Indemnity Limited are shown on the face of the profit and loss account as acquisitions. Otherwise, none of the results for the year were attributable to acquired operations as the acquisitions occurred immediately before the year end.

Notes (continued)

17 Called up share capital

	2004 £	2003 £
Authorised		
Ordinary shares of £1 each	150,000,000	150,000,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	138,389,547	116,988,003
	<u> </u>	<u> </u>

On 30th June 2004, 3,366,000 shares of £1 each were issued at par for cash and on 31st December 2004, 18,035,544 shares of £1 each were issued at par for cash. These shares were issued following a group reorganisation and divisionalisation exercise approved on 30th June 2004 and 29th December 2004 respectively.

18 Reserves

	2004 Profit and loss account £	2003 Profit and loss account £
At beginning of year	406,852	735,488
Retained profit for the year	1,868,155	(328,636)
	<u> </u>	<u> </u>
At end of year	2,275,007	406,852
	<u> </u>	<u> </u>
	Other Reserves 2004 £	Other Reserves 2003 £
At beginning of year	292,842	-
Arising on divisionalisation	222,800	292,842
	<u> </u>	<u> </u>
At end of year	515,642	292,842
	<u> </u>	<u> </u>

Notes (continued)

19 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	2004 Land & Buildings	2004 Other	2003 Land & Buildings	2003 Other
Operating leases which expire:				
Within one year	26,085	6,567	14,499	2,224
Within two to five years	55,176	87,432	118,364	73,742
Over five years	700,550	14,391	296,328	-
	<hr/> 781,811	<hr/> 108,390	<hr/> 429,191	<hr/> 75,966
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20 Pension scheme

Towergate Underwriting Limited operates a defined contribution pension scheme, which is open to the employees. The pension cost charge for the period represents contributions payable by the Company to the fund and amounted to £450,203 (2003: £57,475). The amounts outstanding at 31st December 2004 were £Nil (£2003: £Nil).

21 Related party disclosures

The Company is a subsidiary undertaking of Towergate Underwriting Limited, which is the ultimate parent Company incorporated in England and Wales.

The consolidated accounts of this Company are available to the public and may be obtained from:

Towergate House
2 County Gate
Staceys Street
Maidstone
Kent ME14 1ST

In the normal course of business, the Company entered into transactions with companies within The Folgate Group. Folgate has many of the same shareholders as the Towergate Underwriting Group and the same controlling party, Mr P G Cullum. Folgate is independently operated and managed from Towergate.

Towergate Underwriting Group Limited conducted business, on an arms length basis, with various companies within the Folgate Group. The total of commission receivable from these companies was £1,814,244 and commission paid away was £302,769. The value of insurance related debtors at the year end was £1,192,230 and creditors was £246,264. Payments were made in respect of rent of £46,744 and office and motor insurance of £87,044.

22 Controlling party

Mr PG Cullum, the Chairman, is the controlling party by virtue of his controlling interest in the parent Company's equity capital.

Notes *(continued)*

23 Contingent liabilities

A guarantee and debenture have been granted over the shares and the assets of the Company in favour of RBS Mezzanine Limited, under the terms of which all monies due or which may become due from the Company, or other group companies listed below, to RBS Mezzanine Limited, are guaranteed. The amount due by group companies at 31 December 2004 was £43,075,000 (2003: £21,750,000). On 29 April 2004 the parent company refinanced its borrowings with a syndicate of banks, namely RBS, Barclays and Lloyds TSB. Further details of the refinancing are set out in the financial statements of the parent company.

Further details of the aggregate liabilities due by group companies to RBS Mezzanine Limited are set out in the financial statements of the parent company. The group companies involved include principally:

Towergate Finch Professional Indemnity Limited
Towergate Underwriting Group Limited
Towergate Underwriting Limited

In the normal course of business, the company may receive claims in respect of errors and omissions. No material adverse financial impact is expected to arise from these claims.