

Company registration number (England and Wales): 4195559

# **LYMINGTON UNDERWRITING LIMITED**

***DIRECTORS' REPORT AND FINANCIAL STATEMENTS***

***FOR THE YEAR ENDED 31 DECEMBER 2005***

# LYMINGTON UNDERWRITING LIMITED

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# LYMINGTON UNDERWRITING LIMITED

## COMPANY INFORMATION

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### COMPANY PERSONNEL

<b>Directors</b>	A D N Balme R N Balme
<b>Company Secretary</b>	Aequanimiter Limited

### COMPANY ADDRESSES

<b>Registered office</b>	Peninsular House 36 Monument Street London EC3R 8LJ
<b>Lloyd's sponsor</b>	CBS Private Capital Limited Peninsular House 36 Monument Street London EC3R 8LJ
<b>Member's agent</b>	CBS Private Capital Limited Peninsular House 36 Monument Street London EC3R 8LJ
<b>Auditors</b>	Humphrey & Co 7 - 9 The Avenue Eastbourne East Sussex BN21 3YA
<b>Solicitors</b>	Morton Fraser 30-31 Queen Street Edinburgh EH2 1JX

# LYMINGTON UNDERWRITING LIMITED

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

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The directors have pleasure in presenting their report together with the financial statements for the year ended 31 December 2005.

### Results and dividends

The loss for the year after taxation was £57,794 (2004 profit £175,931). The directors do not recommend the payment of a final dividend.

### Principal activities and review of the business

The principal activity of the Company in the year under review was that of a corporate underwriting member of Lloyd's. The Company commenced underwriting with effect from 1 January 2002.

The result for the year is in respect of the 2005 annual accounting year. This represents a fundamental change in the reporting basis as disclosed in note 6 to the financial statements and has resulted in a prior year adjustment of £188,495 which has been credited to retained reserves. The syndicates identified on page 22 are unable to obtain a re-insurance to close. The company has continued to write on the 2006 underwriting account where the market conditions are considered favorable for a profitable outcome subject to the level of claims experienced. Any underwriting profits will continue to be distributed by reference to the results of individual underwriting years upon closure.

### Directors and directors' interests

The directors who held office during the year are listed below together with their interests in the shares of the company:

	31 December 2005	Ordinary £1.00 shares 1 January 2005
A D N Balme	-	-
R N Balme	-	-

### Auditors

Messrs. Humphrey & Co, having signified their willingness to continue in office, will be proposed for re-appointment in accordance with section 386 of the Companies Act 1985.

Approved by the Board on *3rd August* 2006 and signed on its behalf by:



A D N Balme  
Director

**LYMINGTON UNDERWRITING LIMITED**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **LYMINGTON UNDERWRITING LIMITED**

## **INDEPENDENT AUDITORS REPORT**

### **TO THE SHAREHOLDERS OF LYMINGTON UNDERWRITING LIMITED**

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We have audited the financial statements of Lymington Underwriting Limited on pages 5 to 22 for the year ended 31 December 2005. These financial statements have been prepared under 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 auditors**

As described in the statement of directors' responsibilities on page 3 the company's directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions 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 International Standards on Auditing (UK and Ireland) 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.

We have undertaken the audit in accordance with the requirements of APB Ethical Standards including APB Ethical Standard - Provisions Available for Small Entities, in the circumstances set out in note 21 to the financial statements.

#### **Opinion**

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

*Humphrey & Co*

**Humphrey & Co**  
Chartered Accountants  
Registered Auditors

7-9 The Avenue  
Eastbourne  
East Sussex  
BN21 3YA

9 August 2006

# LYMINGTON UNDERWRITING LIMITED

## PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT (GENERAL BUSINESS) FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	2004 (as restated) £
Gross premiums written	2	2,561,566	2,192,182
Outward reinsurance premiums		(593,599)	(457,441)
<b>Earned premiums net of reinsurance</b>		<b>1,967,967</b>	<b>1,734,741</b>
Allocated investment income	4	108,807	61,475
<b>Claims paid</b>			
Gross amount		(1,212,057)	(712,265)
Reinsurers' share		395,762	203,185
Net claims paid		(816,295)	(509,080)
<b>Change in provision for claims</b>			
Gross amount		(1,534,937)	(598,581)
Reinsurers' share		780,200	106,362
Net change in provision for claims		(754,737)	(492,219)
<b>Claims incurred net of reinsurance</b>		<b>(1,571,032)</b>	<b>(1,001,299)</b>
Net operating expenses	5	(625,975)	(574,257)
Investment expenses and charges		(5,649)	(2,398)
<b>Balance on technical account for general business</b>		<b>(125,882)</b>	<b>218,262</b>

# LYMINGTON UNDERWRITING LIMITED

## PROFIT AND LOSS ACCOUNT - NON TECHNICAL ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	2004 (as restated) £
Balance on the general business technical account	6	(125,882)	218,262
Investment income	7	222,333	221,052
Other income	8	2,370	2,921
Other charges		(190,504)	(201,109)
<b>(Loss)/Profit on ordinary activities before taxation</b>	9	<b>(91,683)</b>	241,126
Tax on (loss)/profit on ordinary activities	17	33,889	(65,195)
<b>(Loss)/Profit for the financial year</b>		<b>(57,794)</b>	175,931

All amounts above relate to continuing operations.



# LYMINGTON UNDERWRITING LIMITED

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	2004 (as restated) £
(Loss)/Profit for the financial year		<b>(57,794)</b>	175,931
<b>Total recognised gains and losses relating to the year</b>		<b>(57,794)</b>	175,931
Prior year adjustment	6	<b>188,495</b>	-
<b>Total gains and losses recognised since the last financial statements</b>		<b>130,701</b>	175,931

# LYMINGTON UNDERWRITING LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	Syndicate Assets £	Corporate £	2005 Total £	2004 Total (as restated) £
<b>ASSETS</b>					
<b>Intangible assets</b>					
Syndicate participation rights	10	-	18,108	18,108	25,710
<b>Investments</b>					
Financial investments	11	2,618,533	1,166,707	3,785,240	2,950,731
Deposits with ceding undertakings		1,420	-	1,420	1,676
Total investments		2,619,953	1,166,707	3,786,660	2,952,407
<b>Reinsurers' share of technical provisions</b>					
Claims outstanding		1,720,270	-	1,720,270	838,037
<b>Debtors</b>					
Arising out of direct insurance operations					
Policyholders		1,626	-	1,626	33
Intermediaries		879,684	-	879,684	717,106
Arising out of reinsurance operations		169,478	-	169,478	90,651
Other debtors	12	268,497	176,182	444,679	472,898
Total debtors		1,319,285	176,182	1,495,467	1,280,688
<b>Other assets</b>					
Cash at bank	13	315,486	91,359	406,845	432,589
Other		184,328	-	184,328	140,133
Total other assets		499,814	91,359	591,173	572,722
<b>Prepayments and accrued income</b>					
Other prepayments and accrued income		256,455	-	256,455	218,571
<b>Total assets</b>		<b>6,415,777</b>	<b>1,452,356</b>	<b>7,868,133</b>	<b>5,888,135</b>

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# LYMINGTON UNDERWRITING LIMITED

## BALANCE SHEET (continued)

AS AT 31 DECEMBER 2005

	Note	Syndicate Liabilities £	Corporate £	2005 Total £	2004 Total as restated £
<b>LIABILITIES</b>					
<b>Capital and reserves</b>					
Called-up share capital	14	-	500	500	500
Share premium account	15	-	564	564	564
Profit and loss account	15	-	373,745	373,745	431,539
<b>Shareholder's funds attributable to equity interests</b>	16	-	374,809	374,809	432,603
<b>Technical provisions</b>					
Claims outstanding - gross amount		5,709,451	-	5,709,451	3,765,706
<b>Provisions for other risks and charges</b>					
Provision for taxation	17	-	45,206	45,206	147,990
<b>Deposits received from reinsurers</b>		43,036	-	43,036	9,329
<b>Creditors</b>					
Arising out of direct insurance operations		81,549	-	81,549	49,637
Arising out of reinsurance operations		271,702	-	271,702	168,103
Amounts due to credit institutions		478	-	478	-
Other creditors	18	291,555	940,072	1,231,627	1,202,520
<b>Total creditors</b>		645,284	940,072	1,585,356	1,420,260
<b>Accruals and deferred income</b>					
Other accruals and deferred income		18,006	92,269	110,275	112,247
<b>Total liabilities</b>		6,415,777	1,452,356	7,868,133	5,888,135

Approved by the Board on *3rd August* 2006 and signed on its behalf by:



A D N Balme  
Director

# LYMINGTON UNDERWRITING LIMITED

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 £	2004 £
<b>Net cash inflow from operating activities</b>	19	138,720	5,789
<b>Returns on investments and servicing of finance</b>			
Interest received		5,536	7,247
Interest paid		(57,450)	(64,006)
Dividends received		32,403	33,477
<b>Net cash outflow from returns on investments and servicing of finance</b>		(19,511)	(23,282)
<b>Taxation</b>			
UK corporation tax paid		(4,378)	(16,452)
Foreign tax paid		(48,561)	(7,804)
<b>Net cash outflow from taxation</b>		(52,939)	(24,256)
<b>Capital expenditure and financial investment</b>			
Purchase of syndicate participation rights		(1,639)	(21,736)
Proceeds from sale of syndicate participation rights		2,370	2,950
Purchase of investments		(249,724)	(231,860)
Proceeds from sale of investments		305,036	269,200
<b>Net cash inflow from capital expenditure and financial investment</b>		56,043	18,554
<b>Net cash inflow/(outflow) before financing</b>		122,313	(23,195)
<b>Financing</b>			
Funds (withdrawn from)/lent to the company by the company's shareholders		(221,122)	68,126
<b>Net cash (outflow)/inflow from financing</b>		(221,122)	68,126
<b>(Decrease)/Increase in cash</b>		(98,809)	44,931
Net funds at 1 January		190,168	145,237
(Decrease)/Increase in cash in the year		(98,809)	44,931
<b>Net funds at 31 December</b>		<b>91,359</b>	<b>190,168</b>

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Cash Flow Statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from the Syndicates at Lloyd's.

# **LYMINGTON UNDERWRITING LIMITED**

## **NOTES TO THE ACCOUNTS - ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2005**

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### **1 Accounting policies**

#### **1.1 Basis of preparation**

The Financial Statements have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985 and the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in 2005. They are prepared under the historical cost basis of accounting modified to include the revaluation of investments, and comply with applicable accounting standards.

#### **Change in reporting basis**

The underwriting results included within the technical account are determined on an annual basis of accounting (see note 6). This represents a fundamental change in reporting basis rather than a series of changes in accounting policies. Previously results were determined on a three year funded basis whereby each underwriting year of account was normally kept open for three years and the result only ascertained at the end of the third year when the year of account was usually closed by reinsurance.

The prior year figures have been restated as disclosed in note 15.

#### **Basis of accounting**

The technical account has been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums net of re-insurance.

Accounting information in respect of the Syndicate participations has been provided by the Syndicate managing agents through an information exchange facility operated by Lloyd's and has been reported on by the Syndicate auditors.

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the Syndicates' managing agents and are shown separately on the Balance Sheet as "Syndicate Assets" and "Syndicate Liabilities". The assets are held subject to trust deeds for the benefit of the Syndicates' insurance creditors.

In continuing to apply the going concern basis to this Company's Financial Statements the following factors have been taken into account: the likely timing of any underwriting and non-underwriting cash flows, any Funds at Lloyd's supporting the Company's underwriting and not reflected in the Company's Balance Sheet and the continued support of the Directors and Shareholders including the potential deferral of balances due to them.

### **General business**

#### **i Premiums**

Gross premiums are accounted for in the period in which the risk commences, together with adjustments to premiums written in previous accounting periods. Future premiums relating to risks commencing in the period are based upon estimates made by the Syndicates' management. Other adjustments are accounted for as arising.

#### **ii Claims**

Provision is made for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date, and for the related cost of settlement. Claims incurred comprise amounts paid or provided in respect of claims occurring during the current year, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year.

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE ACCOUNTS - ACCOUNTING POLICIES (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

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### ii **Claims (continued)**

The claims provision determined by the managing agent will have been based on information that was currently available at the time. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided and will be reflected in the financial statements for the period in which the adjustment is made.

### iii **Investments and allocated investment income**

In accordance with Lloyd's current accounting practice, investments are stated at market value, including accrued interest at the Balance Sheet date. Investment income is included in the General Business Technical Account reflecting that earned on the investment portfolio managed by the Syndicates. The allocated investment income therefore comprises income received and investment profits and losses arising in the calendar year including appreciation/depreciation and accrued interest consequent upon the revaluation of investments at 31 December. All gains and losses on investments are treated as realised at the Balance Sheet date.

### iv **Basis of currency translation**

Syndicates maintain separate funds in Sterling, United States and Canadian dollars, and may also do so in certain other currencies. All transactions where separate currencies are maintained are translated into Sterling at the rates of exchange ruling at the Balance Sheet date. Transactions during the year in other overseas currencies are expressed in Sterling at the rates ruling at the transaction date.

### v **Debtors/creditors arising from insurance/reinsurance operations**

The amounts shown in the Balance Sheet include the totals of all the Syndicates outstanding debit and credit transactions. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate.

## 1.2 **Deferred Taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities have not been discounted.

## 1.3 **Intangible assets**

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on Syndicates' underwriting years are included within intangible assets and amortised over a 3 year period beginning with the respective year of Syndicate participation.

## 1.4 **Investments**

Investments held directly by the company, by trustees of the Premium Trust Fund, or as the Lloyds Deposit, are stated at market value.

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

2 Class of business	Gross written premiums £	Gross claims incurred £	Operating expenses £	Reinsurance balance £
<b>2005</b>				
<b>Direct</b>				
Accident and health	51,409	(17,913)	(17,180)	(3,836)
Motor - third party liability	46,901	(17,418)	(30,159)	(17,770)
Motor - other classes	183,413	(103,490)	(26,101)	(4,946)
Marine, aviation and transport	231,196	(323,511)	(58,619)	136,511
Fire and other damage to property	458,658	(465,443)	(124,436)	99,221
Third party liability	624,198	(351,321)	(156,086)	(40,229)
Credit and suretyship	16,464	(20,872)	(7,176)	(477)
Other	7,440	(2,281)	(1,622)	(460)
<b>Total direct</b>	<b>1,619,679</b>	<b>(1,302,249)</b>	<b>(421,379)</b>	<b>168,014</b>
<b>Reinsurance business</b>				
Reinsurance balance	941,887	(1,444,745)	(204,596)	414,349
<b>Total</b>	<b>2,561,566</b>	<b>(2,746,994)</b>	<b>(625,975)</b>	<b>582,363</b>
<b>2004</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Direct</b>				
Accident and health	41,156	(34,652)	(13,084)	(61)
Motor - third party liability	51,374	(27,130)	(17,226)	2,715
Motor - other classes	100,432	(57,968)	(26,461)	(7,960)
Marine, aviation and transport	165,634	(102,046)	(51,426)	(20,112)
Fire and other damage to property	390,585	(242,745)	(116,897)	(34,677)
Third party liability	630,676	(363,199)	(165,119)	(53,006)
Credit and suretyship	16,074	(22,500)	(6,202)	52
Other	11,702	(5,139)	(4,906)	(3,239)
<b>Total direct</b>	<b>1,407,633</b>	<b>(855,379)</b>	<b>(401,321)</b>	<b>(116,288)</b>
<b>Reinsurance business</b>				
Reinsurance balance	784,549	(455,467)	(172,936)	(31,606)
<b>Total</b>	<b>2,192,182</b>	<b>(1,310,846)</b>	<b>(574,257)</b>	<b>(147,894)</b>

Any open year loss provisions, stop loss premiums and stop loss recoveries have been allocated across the classes of business by reference to the gross premiums written.

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

<b>3 Geographical analysis</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
<b>Direct gross premiums written in:</b>		
United Kingdom	<b>2,561,566</b>	2,192,182
Other EU member states	-	-
The rest of the world	-	-
<b>Total</b>	<b>2,561,566</b>	2,192,182

<b>4 Allocated investment income</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Investment income	<b>99,815</b>	70,641
Realised gain/(loss) on investments	<b>8,992</b>	(9,166)
<b>Total</b>	<b>108,807</b>	61,475

<b>5 Net operating expenses</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Acquisition costs	<b>479,651</b>	417,054
Administrative expenses	<b>169,001</b>	145,795
(Profit)/Loss on exchange	<b>(22,677)</b>	11,408
<b>Total</b>	<b>625,975</b>	574,257

### **6 Change in reporting basis**

Prior to 1 January 2005 accounting information on syndicate participations had been provided by the Syndicate managing agents on a three year funded basis whereby each underwriting year of account was normally kept open for three years and the result ascertained at the end of the third year when the year of account was usually closed by reinsurance into the following year of account.

The move to the annual basis of accounting represents a fundamental change in the reporting basis rather than a series of changes of accounting policies. Comparative amounts for 2004 have been restated. The net effect of the change is reflected in a prior year adjustment to reserves shown in note 15.

The annual basis of accounting is fundamentally different from the three year funded basis and it is not considered practicable to identify the impact of the change of basis on the current year.

A full breakdown of the accounting policies used under the previous basis of accounting can be found in the 2004 accounts.



# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

<b>7 Investment income</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Income from other investments (including interest receivable)	<b>37,939</b>	40,724
Realised gain from other investments	<b>19,384</b>	17,598
Unrealised gain from other investments	<b>165,010</b>	162,730
<b>Total</b>	<b>222,333</b>	221,052

<b>8 Other income</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Profit on sale of syndicate participation rights	<b>2,370</b>	2,921
Other	-	-
<b>Total</b>	<b>2,370</b>	2,921

<b>9 (Loss)/Profit on ordinary activities before taxation</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
This is stated after charging:		
Auditor's remuneration - audit	<b>570</b>	535
Auditor's remuneration - other	<b>1,000</b>	1,235
Director's remuneration	<b>80,000</b>	80,000
Employer's National Insurance contributions	<b>9,035</b>	10,240
Employer's pension contributions	<b>26,160</b>	27,836
Amortisation of syndicate capacity	<b>9,241</b>	5,662

The company has no employees.

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

### 10 Intangible assets

#### Syndicate Participation Rights £

#### Cost

At 1 January 2005	38,721
Additions	1,639
Disposals	(817)
At 31 December 2005	<b>39,543</b>

#### Amortisation

At 1 January 2005	13,011
Charge for the year	9,241
Impairment losses	-
Disposals	(817)
At 31 December 2005	<b>21,435</b>

#### Net book value

At 31 December 2005	<b>18,108</b>
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At 31 December 2004	25,710
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### 11 Investments: Financial investments

	Syndicate £	Corporate £	2005 Total £	2004 Total £
<b>At market value</b>				
Shares and other variable yield securities	213,726	1,028,543	<b>1,242,269</b>	1,037,288
Debt securities and other fixed income securities	2,295,600	138,164	<b>2,433,764</b>	1,791,956
Participation in investment pools	18,742	-	<b>18,742</b>	65,664
Loans guaranteed by mortgage	-	-	-	-
Other loans	18,383	-	<b>18,383</b>	46
Deposits with credit institutions	64,791	-	<b>64,791</b>	53,397
Other	7,291	-	<b>7,291</b>	2,380
<b>Total</b>	<b>2,618,533</b>	<b>1,166,707</b>	<b>3,785,240</b>	<b>2,950,731</b>

The corporate investments held include £1,022,826 (2004: £899,174) at market value in respect of Lloyd's deposits that are held in accordance with the constraints detailed in note 20.

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

### 11 Investments: Financial investments (continued)

	Syndicate £	Corporate £	2005 Total £	2004 Total £
<b>At cost</b>				
Shares and other variable yield securities	202,561	-	<b>202,561</b>	149,954
Debt securities and other fixed income securities	2,301,105	-	<b>2,301,105</b>	1,644,378
Participation in investment pools	17,720	-	<b>17,720</b>	65,651
Loans guaranteed by mortgage	-	-	-	-
Other loans	12,570	-	<b>12,570</b>	45
Deposits with credit institutions	64,185	-	<b>64,185</b>	53,279
Other	9,224	-	<b>9,224</b>	2,332
<b>Total</b>	<b>2,607,365</b>	<b>-</b>	<b>2,607,365</b>	<b>1,915,639</b>

### 12 Debtors

	Syndicate £	Corporate £	2005 Total £	2004 Total £
Deferred tax	-	-	-	-
Other	268,497	176,182	<b>444,679</b>	472,898
<b>Total</b>	<b>268,497</b>	<b>176,182</b>	<b>444,679</b>	<b>472,898</b>

### 13 Cash at bank

	Syndicate £	Corporate £	2005 Total £	2004 Total £
Lloyd's deposit	-	87,342	<b>87,342</b>	187,856
Cash at bank and in hand	315,486	4,017	<b>319,503</b>	244,733
<b>Total</b>	<b>315,486</b>	<b>91,359</b>	<b>406,845</b>	<b>432,589</b>

Any Lloyd's deposit is held in accordance with the constraints detailed in note 20.

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

<b>14 Share capital</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
<i>Authorised</i>		
100,000 Ordinary shares of £1.00 each	<b>100,000</b>	100,000
<i>Allotted, called up and fully paid</i>		
500 Ordinary shares of £1.00 each	<b>500</b>	500
<b>15 Statement of movements on reserves</b>	<b>Share premium account</b>	<b>Profit and loss account</b>
	<b>£</b>	<b>£</b>
At 1 January 2005 as previously stated	564	243,044
Prior year adjustment (see note 6)	-	188,495
At 1 January 2005 as restated	564	431,539
Loss during the year	-	(57,794)
At 31 December 2005	<b>564</b>	<b>373,745</b>
<b>16 Reconciliation of movements in shareholders' funds</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>as restated</b>
		<b>£</b>
Retained (loss)/profit for the financial year	<b>(57,794)</b>	175,931
Proceeds from the issue of shares	-	-
Net (depletion in)/addition to shareholders' funds	<b>(57,794)</b>	175,931
Opening shareholders' funds as restated	<b>432,603</b>	256,672
Closing shareholders' funds	<b>374,809</b>	432,603
<b>17 Taxation</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
<i>Analysis of charge in year</i>		
<i>Current tax</i>		
UK Corporation Tax on profits of the year	<b>39,405</b>	4,378
Adjustments in respect of prior years	-	-
Foreign tax	<b>29,490</b>	-
Total current tax	<b>68,895</b>	4,378

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

### 17 Taxation (continued)

2005  
£

2004  
£

#### *Analysis of charge in year*

#### *Deferred tax*

Origination and reversal of timing differences	(102,784)	60,817
Changes in tax rates	-	-
Adjustment to the estimated recoverable amounts of deferred tax assets arising in prior years	-	-
Other items	-	-
<b>Total deferred tax</b>	<b>(102,784)</b>	<b>60,817</b>

<b>Tax on (loss)/profit on ordinary activities</b>	<b>(33,889)</b>	<b>65,195</b>
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#### *Factors affecting tax charge for the year*

The tax assessed for the year is higher (2004 - lower) than the standard rate of Corporation Tax in the UK of 30.00% (2004 - 30.00%). The differences are explained below:

2005  
£

2004  
£

<b>(Loss)/Profit on ordinary activities before taxation</b>	<b>(91,683)</b>	<b>241,126</b>
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<b>(Loss)/Profit on ordinary activities before taxation multiplied by the standard rate of Corporation Tax in the UK of 30.00% (2004 - 30.00%).</b>	<b>(27,505)</b>	<b>72,338</b>
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#### *Effects of:*

Expenses not deductible for tax purposes	-	-
Timing differences arising from the taxation of the underwriting results	102,784	(60,817)
Timing differences arising from the taxation of syndicate participation movements	-	54
Tax losses carried forward	-	-
Adjustments to tax charge in respect of prior periods	-	-
Other adjustments	(6,384)	(7,197)
<b>Current tax charge for the year</b>	<b>68,895</b>	<b>4,378</b>

#### *Factors that may affect future tax charges*

The company has trading losses of £Nil (2004 - £Nil) available for carry forward against future trading profits.

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

17 Taxation (continued)	2005 £	2004 £
<i>Provision for deferred tax</i>		
At 1 January 2005	147,990	87,173
(Credit)/Charge to the profit and loss account	(102,784)	60,817
Released or utilised in the year	-	-
At 31 December 2005	45,206	147,990

Full provision has been made for all timing differences apart from the recovery of taxation losses against future trading profits, which cannot be prudently anticipated at this time.

The deferred tax asset not provided for in respect of Corporation Tax losses, and deferred tax losses not yet assessable to Corporation Tax, amounted to £Nil (2004 - £Nil).

18 Other creditors	Syndicate £	Corporate £	2005 £	2004 £
Other creditors	291,555	143,500	435,055	219,853
Social security costs	-	-	-	-
Corporation tax	-	39,405	39,405	4,378
Shareholders' loan account	-	757,167	757,167	978,289
	291,555	940,072	1,231,627	1,202,520

The above shareholders' loan has been included in the related party transactions note 22.

## 19 Reconciliation of operating (loss)/profit before interest to net cash inflow from operating activities

	2005 £	2004 £
Operating (loss)/profit before interest	(256,566)	84,080
Current year result not distributable in year	125,882	(218,262)
Prior year result distributable in year	216,732	-
Profit on sale of syndicate participation rights	(2,370)	(2,921)
Increase in creditors	45,801	135,931
Decrease in debtors	-	1,299
Amortisation and impairment of syndicate participation rights	9,241	5,662
Net cash inflow from operating activities	138,720	5,789

# **LYMINGTON UNDERWRITING LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005**

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### **20 Fund's at Lloyd's**

Cash balances of £87,342 (2004: £187,856) detailed in note 13 and investments of £1,022,826 (2004: £899,174) detailed in note 11 are held within the company's Lloyd's deposit.

The Lloyd's deposit represents funds deposited with the Corporation of Lloyd's (Lloyd's) to support the company's underwriting activities as described in the accounting policies. The company has entered into a legal agreement with Lloyd's which gives the Corporation the right to apply these funds in settlement of any claims arising from the company's participation on Lloyd's Syndicates. These funds can only be released from the provision of this deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset or after the expiration of the company's liabilities in respect of its underwriting.

In addition to these amounts, the shareholders of the company have also made available to Lloyd's assets amounting to approximately £Nil (2004: £Nil) which are also used by the company to support its Lloyd's underwriting. These funds are also available to Lloyd's to meet the personal underwriting liabilities of the shareholders for underwriting years prior to the commencement of trading by the company.

### **21 Auditors' Ethical Standards**

In common with many businesses of our size and nature we use our auditors to prepare and submit returns to the tax authorities and assist with the preparation of the financial statements.

### **22 Related party transactions**

AMC Limited is the ultimate holding company and owns 100% of the share capital of Lymington Underwriting Limited and Mr A D N and R N Balme are both directors and controlling shareholders of AMC Limited. During 2005 AMC Limited provided additional funding of £62,796 (2004: £68,126) and withdrew funding of £283,918 (2004 - £nil). Included within creditors at 31 December 2005 is £757,167 (2004: £978,289) which is due to AMC Limited. This amount is shown separately in note 18 under Shareholders' loan account. AMC Limited charge interest at 7% per annum on this loan which amounted to £57,445 (2004: £64,000).

# LYMINGTON UNDERWRITING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2005

### 23 Syndicates

The company is or was an Underwriting Member of the following Syndicate(s) or MAPA's:

Syn. No.	Managing agent	2006 Allocated Capacity	2005 Allocated Capacity	2004 Allocated Capacity	2003 Allocated Capacity *
0033	Hiscox Syndicates Limited	247,707	230,460	252,000	302,000
0218	Cox Syndicate Management Limited	83,250	70,000	-	-
0260	KGM Underwriting Agencies Limited	135,323	125,882	107,500	107,500
0318	Beaufort Underwriting Agency Limited	50,000	50,000	-	-
0386	Limit Underwriting Limited	85,008	106,259	125,010	112,500
0510	R J Kiln & Co Limited	262,194	228,991	183,015	174,300
0557	R J Kiln & Co Limited	34,350	30,000	-	-
0609	Atrium Underwriters Limited	56,578	56,578	-	-
0623	Beazley Furlonge Limited	162,561	225,417	325,417	291,567
0727	S A Meacock & Co Limited	38,015	-	-	-
0780	Advent Underwriting Limited	163,046	203,046	219,440	230,987
0958	Omega Underwriting Agents Limited	261,960	236,000	196,000	-
1007	SVB Syndicates Limited	-	-	143,050	100,000
2001	Amlin Underwriting Limited	-	-	-	165,000
2010	Cathedral Underwriting Limited	130,468	104,375	104,375	83,500
2020	Wellington Underwriting Agencies Limited	255,999	233,600	233,600	224,000
2525	Abacus Syndicates Limited	143,318	163,089	89,259	50,000
2526	Abacus Syndicates Limited	67,417	76,204	40,000	-
2791	Managing Agency Partners Limited	270,043	220,000	200,000	150,000
<i>* shading denotes year of account in run-off</i>		£ 2,447,237	£ 2,359,901	£ 2,218,666	£ 1,991,354

In addition the company is still participating on the following syndicates or MAPA's in run-off:

Syn. No.	Managing agent	Year of Account	Allocated Capacity
0002	Advent Underwriting Limited	2002	155,000