

THE FOLGATE PARTNERSHIP LIMITED

Report and Financial Statements

For the year from 1 April 2003 to 31 March 2004



Deloitte & Touche LLP
London

THE FOLGATE PARTNERSHIP LIMITED

REPORT AND FINANCIAL STATEMENTS 31 MARCH 2004

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THE FOLGATE PARTNERSHIP LIMITED

REPORT AND FINANCIAL STATEMENTS 31 MARCH 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P Cullum
A Homer
K Maciver
J Dodd
T Philip
A Graham
B McLaren

SECRETARY

T Craton

REGISTERED OFFICE

Folgate House
26-28 Pembroke Road
Sevenoaks
Kent TN13 1XR

BANKERS

The Royal Bank of Scotland plc
62/63 Threadneedle Street
PO Box 412
London EC2P 8LA

SOLICITORS

DLA
3 Noble Street
London EC2V 7EE

AUDITORS

Deloitte & Touche LLP
London

THE FOLGATE PARTNERSHIP LIMITED

REPORT AND FINANCIAL STATEMENTS 31 MARCH 2004

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year from 1 April 2003 to 31 March 2004.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company's principal activity is to act as the ultimate holding company to a group of insurance brokers.

In the year to 31 March 2004 the group has grown rapidly through acquisitions of companies and portfolios of business and this growth has continued into the new financial year. Both the level of business and the year end financial position are satisfactory, a situation which is expected to continue for the foreseeable future.

Pursuant to certain financing arrangements between The Royal Bank of Scotland plc and certain of its subsidiary companies ("RBS"), and The Folgate Partnership Limited, the company has granted security to RBS in respect of monies owed via a guarantee and debenture in favour of RBS pursuant to which, among other things, the company guarantees all monies and liabilities now or at any time hereafter due, owing or incurred from and by The Folgate Partnership Limited and its subsidiaries to RBS and has granted fixed and floating charges over the whole of its assets and undertakings.

Details of post balance sheet events are provided in note 23 to the financial statements.

DIVIDENDS

The directors do not propose the payment of a dividend (2003: £nil).

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. The directors served throughout the year. The directors' interests in the share capital of the company at the beginning and the end of the year are detailed below. None of the directors had an interest in the share capital of the company or any other group undertaking at any time during the year other than as already noted.

Director	Number of Ordinary B shares at the beginning of the year	Number of Ordinary B shares at the end of the year
P Cullum	276,000	276,000
A Homer	48,000	48,000
K Maciver	46,000	46,000
T Philip	4,000	4,000
J Dodd	2,000	2,000

At 31 March 2003, P Cullum held 14,000 Ordinary B shares that were transferred to an employee benefit trust on 20 May 2003. These shares are not included in the schedule above.

POLITICAL AND CHARITABLE DONATIONS

The company made no political or charitable contributions during the year (2003: £nil).

Approved by the Board of Directors and signed on behalf of the Board

Director


P CULLUM

Date

13 October 2004

THE FOLGATE PARTNERSHIP LIMITED

REPORT AND FINANCIAL STATEMENTS 31 MARCH 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 group as at the end of the financial year and of the profit or loss of the group 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; and
- 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 group and the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

THE FOLGATE PARTNERSHIP LIMITED

REPORT AND FINANCIAL STATEMENTS 31 MARCH 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE FOLGATE PARTNERSHIP LIMITED

We have audited the consolidated financial statements of The Folgate Partnership Limited for the year from 1 April 2003 to 31 March 2004 which comprise the profit and loss account, the balance sheets, the reconciliation of movement in shareholders' funds, the cash flow statement and the related notes 1 to 27. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 and other members of the group is not disclosed.

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

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.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for groups including insurance companies to maintain equalisation reserves. The nature of equalisation reserves is set out in note 1 and the amount set aside at the year end is disclosed in notes 14 and 27.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2004 and of the profit of the group for the year from 1 April 2003 to 31 March 2004 and have been properly prepared in accordance with the Companies Act 1985.


Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

22 October 2004

THE FOLGATE PARTNERSHIP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 March 2004

	Note	From 1 April 2003 to 31 March 2004			From 6 November 2001 to 31 March 2003		
		Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
TURNOVER	2	41,132	215	41,347	11,982	1,435	13,417
Interest receivable		804	-	804	455	-	455
OPERATING REVENUE		41,936	215	42,151	12,437	1,435	13,872
Administrative expenses		(37,781)	(77)	(37,858)	(13,480)	(850)	(14,330)
Share of profit / (loss) of Folgate Insurance Company Limited	2	-	2,380	2,380	-	(3,022)	(3,022)
Release of negative goodwill		-	-	-	-	11,888	11,888
OPERATING PROFIT / (LOSS)	3	4,155	2,518	6,673	(1,043)	9,451	8,408
Profit on disposal of subsidiaries and portfolios of business	6	947	-	947	-	-	-
Interest payable and similar charges	7	(2,611)	-	(2,611)	(1,947)	-	(1,947)
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		2,491	2,518	5,009	(2,990)	9,451	6,461
Tax charge on profit on ordinary activities	8			(767)			(83)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				4,242			6,378
Minority interests - equity				(107)			(47)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS				4,135			6,331
Dividends				-			-
RETAINED PROFIT FOR YEAR / PERIOD	18			4,135			6,331

There are no recognised gains or losses for the current year or prior period other than as stated above. Accordingly, no statement of total recognised gains and losses is given.

All operations derive from the continuing activities of the company and its acquisitions in the current year and prior period with the exception of Folgate Insurance Company Limited, which ceased to accept new business and was placed into run-off on 30 June 2003, the activities of SMg Professional Risks Limited, which was sold by the company on 1 April 2003, a portfolio of business from Folgate Sharp Risk Solutions Limited, which was sold by the company on 21 March 2004 and a portfolio of business from Folgate London Market Limited, which was sold by the company on 1 January 2004. The details of these transactions are outlined in note 9.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the holding company is not presented as part of these financial statements. The holding company retained loss for the year amounted to £2,696,000 (2003: loss of £5,633,000).

THE FOLGATE PARTNERSHIP LIMITED

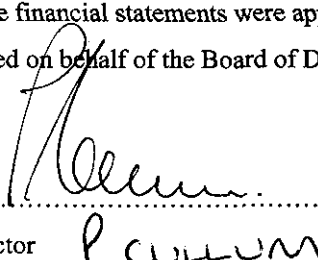
CONSOLIDATED AND COMPANY BALANCE SHEETS 31 March 2004

	Note	Group at 31 March 2004 £'000	Group at 31 March 2003 £'000	Company at 31 March 2004 £'000	Company at 31 March 2003 £'000
FIXED ASSETS					
Intangible fixed assets	9	40,908	22,521	-	-
Tangible fixed assets	10	8,436	5,008	3,314	1,408
Investments	11	62	77	14,264	18,446
		<u>49,406</u>	<u>27,606</u>	<u>17,578</u>	<u>19,854</u>
CURRENT ASSETS					
Debtors	12	49,125	31,109	41,466	13,577
Cash at bank and in hand		39,499	48,264	1,819	923
		<u>88,624</u>	<u>79,373</u>	<u>43,285</u>	<u>14,500</u>
CREDITORS: amounts falling due within one year	13	<u>(79,503)</u>	<u>(53,193)</u>	<u>(14,529)</u>	<u>(3,505)</u>
NET CURRENT ASSETS		<u>9,121</u>	<u>26,180</u>	<u>28,756</u>	<u>10,995</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>58,527</u>	<u>53,786</u>	<u>46,334</u>	<u>30,849</u>
CREDITORS: amounts falling due after more than one year	14	<u>(46,615)</u>	<u>(46,164)</u>	<u>(53,569)</u>	<u>(35,473)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(242)</u>	<u>(239)</u>	<u>(83)</u>	<u>-</u>
MINORITY INTERESTS – EQUITY	19	<u>(193)</u>	<u>(43)</u>	<u>-</u>	<u>-</u>
NET ASSETS / (LIABILITIES)		<u>11,477</u>	<u>7,340</u>	<u>(7,318)</u>	<u>(4,624)</u>
CAPITAL AND RESERVES					
Called up share capital	17	411	409	411	409
Share premium account	18	600	600	600	600
Profit and loss account	18	10,466	6,331	(8,329)	(5,633)
EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)	18	<u>11,477</u>	<u>7,340</u>	<u>(7,318)</u>	<u>(4,624)</u>

These financial statements were approved by the Board of Directors on 13 October 2004.

Signed on behalf of the Board of Directors

Director



THE FOLGATE PARTNERSHIP LIMITED

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

31 March 2004

	Note	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
PROFIT / (LOSS) ATTRIBUTABLE TO SHAREHOLDERS					
Subsidiary undertakings		4,451	3,098	-	-
Holding company		(2,696)	(5,633)	(2,696)	(5,633)
Share of profit / (loss) in Folgate Insurance Company Limited		2,380	8,866	-	-
		<u>4,135</u>	<u>6,331</u>	<u>(2,696)</u>	<u>(5,633)</u>
New shares issued		<u>2</u>	<u>1,009</u>	<u>2</u>	<u>1,009</u>
NET MOVEMENT IN SHAREHOLDERS' FUNDS		4,137	7,340	(2,694)	(4,624)
OPENING EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)	18	<u>7,340</u>	<u>-</u>	<u>(4,624)</u>	<u>-</u>
CLOSING EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)	18	<u>11,477</u>	<u>7,340</u>	<u>(7,318)</u>	<u>(4,624)</u>

THE FOLGATE PARTNERSHIP LIMITED

CONSOLIDATED CASH FLOW STATEMENT Year ended 31 March 2004

	Note	2004 £'000	2003 £'000
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	20	4,786	(17,508)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest and other investment income received		804	455
Interest paid		(1,890)	(1,512)
Interest element of finance lease payments		(33)	(40)
Interest on loan stock and convertible loan notes		(4)	-
		(1,123)	(1,097)
TAXATION			
Corporation tax paid		(1,079)	(150)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(5,106)	(3,113)
Expenditure on investments not completed at balance sheet date		(5)	(65)
Disposal proceeds from the sale of fixed assets		496	504
Disposal proceeds from the sale of investments		2	2
		(4,613)	(2,672)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertakings		(29,052)	(25,949)
Net cash acquired with subsidiaries		7,878	70,658
Disposal of subsidiary undertakings		7,089	-
Net cash disposed of with subsidiaries		(464)	-
		(14,549)	44,709
NET CASH (OUTFLOW) / INFLOW BEFORE FINANCING		(16,578)	23,282
FINANCING			
Issue of ordinary share capital		2	972
New long term loans	21	10,536	26,024
Loan set-up costs	21	(97)	(1,226)
Repayment of long term loans	21	(1,050)	-
Capital element of finance lease payments	21	(337)	(398)
Repayment of acquired debt	21	-	(1,895)
		9,054	23,477
(DECREASE) / INCREASE IN CASH IN THE YEAR / PERIOD		(7,524)	46,759
OPENING CASH AND CASH EQUIVALENTS		46,759	-
CLOSING CASH AND CASH EQUIVALENTS		39,235	46,759
REPRESENTED BY:			
Cash at bank and in hand	22	39,499	48,264
Overdraft balances	22	(25)	(244)
Amounts owed to credit institutions	22	(239)	(1,261)
		39,235	46,759

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with United Kingdom law and applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation and reporting

The group financial statements comprise the accounts of the company and its subsidiary undertakings as at 31 March 2004. The profits and losses of subsidiary undertakings are consolidated as from the date of acquisition. No separate profit and loss account is presented for the company, as permitted by Section 230 of the Companies Act 1985.

The group financial statements are presented in accordance with Schedule 4A of the Companies Act 1985 despite the fact that the group includes an insurance company for which turnover, operating loss, assets and liabilities are significant within the group. The directors of the parent company regard the principal activity of the group to be that of an insurance broker and not an insurance company. The activities of the acquired insurance company were discontinued from 30 June 2002, within three months of the acquisition date.

The group financial statements include Folgate Insurance Company Limited, the insurance company, as at 31 December 2003, being the latest audited accounts for that subsidiary. The accounting reference date of the insurance company has not been aligned with that of the parent company as to do so would have resulted in excessive costs in the insurance company in order to enable it to satisfy the ongoing reporting requirements of the Financial Services Authority in the current year. The accounting reference date will be aligned with that of the parent company when it is reasonable to do so.

The results of the insurance company are consolidated by way of equity accounting with the result attributed to the insurance company shown separately within the profit and loss account. The directors consider that to consolidate the results of the insurance company on a line-by-line basis would not result in a fair presentation of the performance of the group as an insurance broker. The results of the insurance company can be seen in the accounts of that company as at 31 December 2003.

Insurance company accounts adopt a form of presentation which is different from that required for insurance brokers, with the insurance company balance sheet generally not distinguishing between current and non-current balances. For the purposes of complying with the presentation requirements of the Companies Act 1985 as it applies to insurance brokers, balances included in the group balance sheet which derive from the insurance company have been classified as current assets and liabilities.

Goodwill

Positive purchased goodwill arising on acquisitions is capitalised and classified as an asset on the balance sheet. The Companies Act 1985 requires positive goodwill to be amortised to nil over its useful economic life. The company considers that in most cases the goodwill attributable to the acquisitions being made will renew in the normal course of business and, as such, it is appropriate to adopt an estimated useful life in excess of twenty years. Accordingly, the useful life of positive purchased goodwill has been estimated at thirty years. The goodwill is subject to an annual impairment review by reference to the expected future cash flows of the business and written down in value if that review indicates that those future cash flows do not support the carrying value of the goodwill in the balance sheet.

Negative goodwill arising on acquisitions is initially credited to the balance sheet as an offset to positive goodwill and is subsequently released to the profit and loss account as the non-monetary assets are recovered and as the benefit to the group is confirmed. Negative goodwill arising on the purchase of Folgate Insurance Company Limited was amortised in full to the profit and loss account in the year to 31 March 2003.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

1. ACCOUNTING POLICIES (CONTINUED)

Turnover

Turnover represents brokerage and fees for services provided. Brokerage is recognised on the inception or renewal date of a risk, with an element of brokerage deferred to match any significant post placement obligations. Profit or volume based commission, which is received periodically, is recognised when the amount can be measured with reasonable certainty, which is typically the earlier of confirmation of the amount with the relevant provider or receipt of cash.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation which is calculated to write off the cost of such assets over their estimated useful lives. IT development costs are depreciated from the date operational use commences.

The principal rates of depreciation are as follows:

Property & leasehold improvements	Life of lease
Furniture & equipment	10-33% straight line
Motor vehicles	25-33% straight line
Computer equipment	10-25% straight line
IT software, development & licences	12.5-25% straight line

Leased assets

Assets acquired under finance lease are capitalised in the balance sheet and depreciated over their useful lives. The capital elements of the outstanding future lease obligations are shown in creditors, while the interest elements are charged to the profit and loss account over the period of the lease to produce a constant rate of charge on the balance of capital repayments outstanding. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Subsidiary undertakings

Investments in subsidiary undertakings are stated in the balance sheet of the company at cost less any provision for impairment in value.

Investments

Investments are stated in the balance sheet at cost less any provision for impairment in value.

Insurance broking debtors and creditors

Under the provisions of Financial Reporting Standard 5 "Reporting the Substance of Transactions", trade debtors and creditors arising from insurance broking transactions are presented gross.

Pension costs

With the exception of Folgate Insurance Company Limited (note 16) the group's contributions to a defined contribution scheme are charged to the profit and loss account as incurred. In respect of the defined benefit section of the Folgate Insurance Company Limited pension scheme, contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Deferred taxation

In accordance with Financial Reporting Standard 19, 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. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

1. ACCOUNTING POLICIES (CONTINUED)

Provisions for liabilities and charges

As required by Financial Reporting Standard 12, provisions for liabilities and charges have been shown gross of any monies recoverable under the group's insurance policies.

Foreign currencies

Revenues and expenses transacted in foreign currencies are translated into sterling at the rate of exchange ruling at the date the transaction occurred. Monetary assets and liabilities are translated at rates ruling at the balance sheet date. All exchange differences arising from the settlement of trading transactions are included in the profit and loss account.

Policies related to the insurance and investment balances of Folgate Insurance Company Limited at and for the years to 31 December 2002 and 31 December 2003 as consolidated into the group financial statements:

Premiums

Premiums are first accounted for in the year in which the risk commences. Provision has been made for pipeline premiums and policies which are likely to lapse before the end of the financial year.

Provision for unearned premiums

The proportion of premiums written relating to periods of risk after the end of the financial year is deferred to the following year by setting up a provision for unearned premiums. The provision has been accounted for on either a monthly pro rata basis or according to the number of days on risk.

Claims

Claims costs include all claims and claims settlement expense payments made in respect of the financial year, the movement in provisions for outstanding claims, claims incurred but not reported and settlement expenses, net of salvage and subrogation recoveries.

Claims outstanding

Outstanding claims comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims cost, and then allowance is made for changes in the nature of the business, the type of data available and other relevant changes, in order that the estimate represents the most likely outcome taking into account the uncertainties involved. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability. Where applicable, prudent estimates are made for salvage and subrogation recoveries, which are shown in the balance sheet as assets.

Unexpired risks

Provision is made for unexpired risks where the claims and administrative expense likely to arise after the end of the financial year in respect of contracts entered into before that date are expected to exceed the unearned premiums and premiums receivable under these contracts after deduction of deferred acquisition costs. Provision of unexpired risks is calculated separately for each category of business, after taking into account relevant investment income.

Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Equalisation provision

Equalisation provisions have been established in accordance with the requirements of chapter 6 of the FSA's Interim Prudential Sourcebook for Insurers, and included as the equalisation provision within creditors (note 13).

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

1. ACCOUNTING POLICIES (CONTINUED)

Investments

Fixed interest bearing securities are stated in the balance sheet at cost less the redemption provision. The redemption provision is the difference between purchase price and par and is amortised over the period from purchase until redemption. Other investments are stated at market value.

Investment income, expenses and charges

Investment income is accounted for on a receivable basis and interest is accrued up to the balance sheet date. Realised gains and losses represent the difference between net sales proceeds and purchase price or latest carrying value for investments carried at amortised cost.

2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover represents retained brokerage and fees receivable and is derived from continuing activity in the United Kingdom with the exception of the activities of Folgate Insurance Company Limited, SMg Professional Risks Limited, a portfolio of business from Folgate Sharp Risk Solutions Limited and a portfolio of business from Folgate London Market Limited, the results of which have been disclosed as discontinued in the profit and loss account (note 9).

The group operates primarily as an insurance broker, however the profit on ordinary activities before taxation and net assets include the results and balance sheet of the insurance company (note 1). Turnover, profit on ordinary activities before taxation and net assets can be analysed as follows:

Group	2004	2003
Turnover	£'000	£'000
Acquisitions and continuing activities:		
Holding company	1,152	-
Insurance broking	39,980	11,982
Discontinued activities:		
Insurance broking	215	1,435
	<u>41,347</u>	<u>13,417</u>
Group	2004	2003
Profit on ordinary activities before taxation	£'000	£'000
Acquisitions and continuing activities:		
Holding company	(4,950)	(5,633)
Insurance broking	7,441	2,643
Discontinued activities:		
Insurance broking	138	585
Insurance company	2,380	8,866
	<u>5,009</u>	<u>6,461</u>

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

2. TURNOVER AND SEGMENTAL ANALYSIS (CONTINUED)

Group	2004	2003
Net assets	£'000	£'000
Acquisitions and continuing activities:		
Holding company	(7,318)	(4,624)
Insurance broking	6,658	2,436
Discontinued activities:		
Insurance broking	-	39
Insurance company	12,137	9,489
	<u>11,477</u>	<u>7,340</u>

3. OPERATING PROFIT

Group	Group
2004	2003
£'000	£'000
Operating profit is stated after charging / (crediting):	
Auditors' remuneration for audit	496
Auditors' remuneration for other services	-
Goodwill amortisation (note 9)	1,030
Amortisation of loan set-up costs	259
Release of negative goodwill (note 9)	-
Share of operating (profit) / loss of Folgate Insurance Company Limited	(2,380)
Depreciation on owned assets	1,315
Depreciation on assets held under finance lease	166
Loss on disposal of fixed assets	3
Operating lease rentals - land & buildings	1,640
Operating lease rentals - other	439

The share of operating profit of Folgate Insurance Company Limited includes amounts in respect of depreciation on owned assets £101,000 (2003: £121,000), auditors' remuneration for audit £37,000 (2003: £47,000), loss on disposal of fixed assets £nil (2003: £34,000) and operating lease rentals £235,000 (2003: £466,000) that are also disclosed within the totals under these headings in this note.

4. DIRECTORS' REMUNERATION

Group	Group
2004	2003
£'000	£'000
Total remuneration of all directors:	
Aggregate emoluments	1,824
Company pension contributions to money purchase schemes	94
Remuneration of the highest paid director:	
Aggregate emoluments	670
Company pension contributions to money purchase schemes	22

During the year 5 (2003: 6) directors received benefits by way of pension contributions to money purchase schemes.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

5. STAFF COSTS AND OTHER INFORMATION

	Group 2004 £'000	Group 2003 £'000
Staff costs including directors' remuneration:		
Wages and salaries	20,572	8,106
Social security costs	2,088	908
Other pension costs	1,058	1,221
Other related employment costs	689	1,153
	<u>24,407</u>	<u>11,388</u>
Average monthly number of persons employed (including directors):	<u>723</u>	<u>489</u>

Included in staff costs and other information are staff costs of £1,000,000 (2003: £3,087,000) and average monthly employees of 26 (2003: 70) in relation to Folgate Insurance Company Limited.

6. PROFIT ON DISPOSAL

	Group 2004 £'000	Group 2003 £'000
Profit on disposal of subsidiaries and portfolios of business (note 9)	<u>947</u>	<u>-</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2004 £'000	Group 2003 £'000
Bank interest and charges	175	87
Loan interest	2,403	1,820
Finance lease interest	33	40
	<u>2,611</u>	<u>1,947</u>

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	Group 2004 £'000	Group 2003 £'000
UK corporation tax	-	-
Group relief	-	-
UK corporation tax on profit on ordinary activities for the year / period	-	-
Deferred taxation (note 15)	767	83
Tax charge on profit on ordinary activities	767	83

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30%. The actual tax charge for the current year is different from the standard rate for the reasons set out below:

	Group 2004 £'000	Group 2003 £'000
Profit on ordinary activities before tax	5,009	6,461
Corporation tax on profit on ordinary activities at standard rate (2003: 30%)	1,503	1,938
Factors affecting the charge for the year / period:		
Expenses not deductible for tax purposes	328	381
Capital allowances excess of depreciation	(47)	(89)
Indexation allowance on capital disposals	(24)	(111)
Losses utilised	(495)	(1)
Goodwill amortised and negative goodwill released	(811)	(3,443)
Profit on disposal of subsidiaries and portfolios	532	-
Adjustment for pre-acquisition profits for tax purposes	-	(168)
Pre-acquisition trading factors affecting tax charge	(66)	(1,297)
Consolidation adjustments	74	270
Other tax adjustments	280	-
Losses carried forward	(1,274)	2,520
UK corporation tax on profit on ordinary activities for the year / period	-	-

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

9. INTANGIBLE FIXED ASSETS

	Group £'000
Goodwill	
Cost	
At 1 April 2003	11,046
Positive goodwill from additions (note 11)	23,329
Disposals	(4,035)
	<hr/>
At 31 March 2004	30,340
Accumulated amortisation	
At 1 April 2003	(11,475)
Charge for the year	1,030
Disposals	(123)
	<hr/>
At 31 March 2004	(10,568)
Net book value	
At 1 April 2003	22,521
	<hr/>
At 31 March 2004	40,908
	<hr/>

On 21 March 2004 Folgate Sharp Risk Solutions Limited, a subsidiary of The Folgate Partnership Limited, disposed of a portfolio of business to Wingate Holdings Limited. The disposal proceeds of £124,000 can be analysed as follows:

	£'000
Assets disposed of:	
Intangible fixed assets	124
	<hr/>
Net assets	124
Profit on disposal (including goodwill of £124,000) (note 6)	-
	<hr/>
Net sales proceeds	124
	<hr/>
Satisfied by:	
Cash	90
Deferred consideration	34
	<hr/>
	124
	<hr/>

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

9. INTANGIBLE FIXED ASSETS (CONTINUED)

On 1 January 2004 Folgate London Market Limited, a subsidiary of The Folgate Partnership Limited, disposed of a portfolio of professional indemnity business to Towergate Finch Professional Indemnity Limited (note 24). The disposal proceeds of £210,000 can be analysed as follows:

	£'000
Assets and liabilities disposed of:	
Intangible fixed assets	210
Insurance broking debtors	319
Other debtors	1,178
Insurance broking creditors	(1,098)
Other creditors and accruals	(399)
	<hr/>
Net assets	210
Profit on disposal (including goodwill of £210,000) (note 6)	-
	<hr/>
Net sales proceeds	210
	<hr/>
Satisfied by:	
Cash	210
	<hr/>

On 1 April 2003 Smithson Mason Group Limited, a subsidiary of The Folgate Partnership Limited, disposed of SMg Professional Risk Limited to Towergate Underwriting Group Limited (note 24). The disposal proceeds of £5,889,000 can be analysed as follows:

	£'000
Assets and liabilities disposed of:	
Intangible fixed assets	3,578
Tangible fixed assets	23
Insurance broking debtors	473
Other debtors	1,488
Cash	464
Insurance broking creditors	(901)
Other creditors	(183)
	<hr/>
Net assets	4,942
Profit on disposal (including goodwill of £3,578,000) (note 6)	947
	<hr/>
Net sales proceeds	5,889
	<hr/>
Satisfied by:	
Cash	5,889
	<hr/>

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2004

10. TANGIBLE FIXED ASSETS

Group	Property & leasehold improvements £'000	Motor vehicles £'000	Furniture & equipment £'000	Computer equipment £'000	IT software, development & licences £'000	Total £'000
Cost						
At 1 April 2003	674	811	1,398	3,508	2,916	9,307
Additions	1,887	97	502	1,215	1,405	5,106
Companies acquired	175	248	27	123	-	573
Disposals	(272)	(622)	(513)	(49)	-	(1,456)
At 31 March 2004	2,464	534	1,414	4,797	4,321	13,530
Accumulated depreciation						
At 1 April 2003	148	334	903	2,589	325	4,299
Companies acquired	-	88	73	110	-	271
Elimination on disposal	(9)	(421)	(495)	(32)	-	(957)
Charge for the year	110	170	191	561	449	1,481
At 31 March 2004	249	171	672	3,228	774	5,094
Net book value						
At 1 April 2003	526	477	495	919	2,591	5,008
At 31 March 2004	2,215	363	742	1,569	3,547	8,436

Company	Property & leasehold improvements £'000	Motor vehicles £'000	Furniture & equipment £'000	Computer equipment £'000	IT software, development & licences £'000	Total £'000
Cost						
At 1 April 2003	218	-	31	371	838	1,458
Additions	1	-	92	803	1,403	2,299
Disposals	-	-	-	-	-	-
At 31 March 2004	219	-	123	1,174	2,241	3,757
Accumulated depreciation						
At 1 April 2003	4	-	3	43	-	50
Elimination on disposal	-	-	-	-	-	-
Charge for the year	15	-	18	172	188	393
At 31 March 2004	19	-	21	215	188	443
Net book value						
At 1 April 2003	214	-	28	328	838	1,408
At 31 March 2004	200	-	102	959	2,053	3,314

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

10. TANGIBLE FIXED ASSETS (CONTINUED)

The net book value and depreciation charge in relation to tangible fixed assets held under finance lease is as follows:

Group	NBV 2004 £'000	Depreciation 2004 £'000	NBV 2003 £'000	Depreciation 2003 £'000
Motor vehicles	175	118	389	40
Furniture & equipment	25	21	113	34
Computer equipment	27	27	90	31
	<u>227</u>	<u>166</u>	<u>592</u>	<u>105</u>

11. INVESTMENTS

	Group £'000
Unlisted and other investments:	
At 1 April 2003	77
Other investments acquired	46
Other investments disposed of	(2)
Expenditure transferred on completed investments	(64)
Expenditure on investments not completed at 31 March 2004	5
Cost as at 31 March 2004	<u>62</u>
Subsidiary undertakings:	Company £'000
Cost	
At 1 April 2003	18,446
Investment transferred to subsidiary undertaking	(4,182)
At 31 March 2004	<u>14,264</u>
Amounts provided	
At 1 April 2003	-
At 31 March 2004	<u>-</u>
Net book value	
At 1 April 2003	18,446
At 31 March 2004	<u>14,264</u>

During the year the company's investment in Smithson Mason Group Limited was transferred to The Folgate Broker Partnership Limited, a subsidiary of The Folgate Partnership Limited.

The directors consider the following companies, all of which are incorporated in Great Britain and registered in England and Wales, to be subsidiary undertakings of the company at 31 March 2004. Unless otherwise shown, the capital of each company is wholly owned and is in ordinary shares. Where a company is not wholly owned, the percentage of the ordinary share capital owned is shown in brackets. The date of acquisition or incorporation is shown for all subsidiaries acquired in the year ended 31 March 2004.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

11. INVESTMENTS (CONTINUED)

Subsidiary undertaking	Date of acquisition or incorporation	Principal activity
The Folgate Broker Partnership Limited		Intermediary holding company
The Folgate Underwriting Agency Limited		Underwriting agency
The Folgate Network Partnership Limited		Insurance marketing
The Folgate Underwriting Services Limited		Service company
Folgate Underwriting Management Specialty Limited	24 July 2003	Insurance broking
Folgate Risk Solutions (Telford) Limited	8 September 2003	Insurance broking
Folgate Insurance Services (Telford) Limited	24 October 2003	Claims handling & driver training
Folgate Risk Solutions (Halifax) Limited	1 December 2003	Intermediary holding company
Folgate Trinity Risk Solutions Limited	1 December 2003	Insurance broking
Folgate Insurance Company Limited		Insurance company
Folgate Broker Alliance Limited	23 July 2003	Insurance broking
Folgate Trustees Limited		Trustee company
Smithson Mason Group Limited		Intermediary holding company
Smithson Mason Limited		Insurance broking
RBR Holdings Limited		Intermediary holding company
RBR Insurance Brokers Limited		Insurance broking
Bervale Mead Insurance Brokers Limited		Insurance broking
Folgate Risk Solutions (Milton Keynes) Limited		Insurance broking
Clarke Cooper & Company Limited		Insurance broking
Pallett & Collins (General Insurance Services) Limited		Intermediary holding company
Pallett & Collins (Commercial) Limited		Insurance broking
DP Rogers Insurance Holdings Limited		Intermediary holding company
DPR Commercial Insurance Brokers Limited		Insurance broking
DPR Trustees Limited		Trustee company
Duncan Pocock (Holdings) Limited (92.5%)		Intermediary holding company
Folgate Risk Solutions (Oxted) Limited (92.5%)		Insurance broking
Redline Business Insurance Services Limited (92.5%)		Dormant
Redline Personal Insurance Services Limited (92.5%)		Dormant
Duncan Pocock (Commercial Direct) Limited (92.5%)		Dormant
Willett & Ross Limited		Insurance broking
Devonshire Wilson Risk Solutions Limited		Insurance broking
Byas Mosley Risk Solutions Limited		Insurance broking
Byas Mosley UK Limited ⁽¹⁾	1 April 2003	Insurance broking
Folgate London Market Limited ⁽¹⁾	1 April 2003	Insurance broking
Folgate Sharp Risk Solutions Limited ⁽¹⁾	1 April 2003	Insurance broking
Folgate Risk Solutions (Kent) Limited ⁽¹⁾	1 April 2003	Insurance broking
Peel Thompson Fletcher Limited	22 May 2003	Insurance broking
Peter Hill Risk Solutions Limited	15 July 2003	Insurance broking
Peter Hill Credit & Financial Risks Limited	15 July 2003	Dormant
Peter Hill Independent Financial Advisors Limited	15 July 2003	Dormant
Crossways Insurance Brokers Limited	1 August 2003	Insurance broking
Folgate Risk Solutions (Maidstone) Limited	1 September 2003	Insurance broking
Folgate Risk Solutions (Newcastle) Limited	16 October 2003	Insurance broking
The Eastchester Group Limited (92.5%)	18 November 2003	Intermediary holding company
Eastchester Underwriting Limited (92.5%)	18 November 2003	Insurance broking
Folgate Warren Hill Risk Solutions Limited (92.5%)	18 November 2003	Insurance broking
Broadstone Insurance Services (General) Limited	30 November 2003	Insurance broking
Folgate Underwriting Limited	24 February 2004	Insurance broking
Folgate Masterplan Limited	10 February 2004	Insurance broking
Folgate Compliance Limited	24 February 2004	Insurance broking
Folgate Underwriting Partnership Limited	24 February 2004	Insurance broking

⁽¹⁾ Acquired from Towergate Underwriting Group Limited (note 24).

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

11. INVESTMENTS (CONTINUED)

The assets and liabilities acquired in the year, and any adjustments to assets and liabilities purchased in prior periods, are disclosed in aggregate below.

	Book value £'000	Fair value adjustment £'000	Fair value £'000
Assets and liabilities acquired:			
Intangible fixed assets	2,915	(2,915)	-
Investments	1	-	1
Tangible fixed assets	652	(350)	302
Insurance broking debtors	14,057	-	14,057
Debtors	7,003	-	7,003
Cash at bank	7,878	-	7,878
Insurance broking creditors	(17,987)	-	(17,987)
Taxation	(706)	-	(706)
Finance leases	(44)	-	(44)
Other creditors, accruals and deferred income	(4,517)	(109)	(4,626)
Net assets	9,252	(3,374)	5,878
Goodwill arising on acquisition			23,329
Total cost of acquisition			29,207
Total cost of acquisition comprised:			
Cash			23,905
Deferred consideration			5,302
			29,207

The summarised profit and loss account for acquisitions in the year to 31 March 2004 is as follows:

	£'000
Turnover	18,525
Operating profit	8,181
Profit before taxation	5,418
Taxation and minority interests	(1,336)
Profit after taxation	4,082

Fair value adjustments for acquisitions reflect the valuation applied to goodwill and certain fixed assets in the balance sheets of subsidiaries for the purposes of determining the acquisition price, and provisions made for deferred income under Financial Reporting Standard 5 in the balance sheets of acquired subsidiaries.

Deferred consideration, where applicable, is payable based upon the performance of the acquired business for the 24 months subsequent to acquisition. These sums have been provided in full.

The subsidiary undertakings acquired during the year generated a net operating cash inflow of £10,693,000 (2003: £14,553,000 outflow), received £142,000 (2003: £121,000) in respect of net returns on investments and servicing of finance, paid £675,000 (2003: £150,000) in respect of taxation, generated a net outflow of £954,000 (2003: £159,000 inflow) from capital transactions, provided £7,878,000 (2003: £70,658,000) of cash at the date of acquisition and generated a net cash outflow of £40,000 (2003: £10,398,000) in the repayment of debt.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

12. DEBTORS: AMOUNTS DUE WITHIN ONE YEAR

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Insurance debtors	37,788	13,720	-	-
Amounts due from subsidiary undertakings	-	-	39,637	12,974
Reinsurers' share of technical provisions	2,039	7,593	-	-
Other debtors	2,142	3,934	629	540
Deferred tax asset	3,931	4,650	-	-
Corporation tax recoverable	144	-	9	-
Prepayments and accrued income	3,081	1,212	1,191	63
	<u>49,125</u>	<u>31,109</u>	<u>41,466</u>	<u>13,577</u>

The deferred tax asset is expected to be recoverable against anticipated future profits of the group, the timing of which is not entirely predictable. As such, recovery of the deferred tax asset may extend beyond one year. The movement on the deferred tax asset in the year is £719,000 and has been charged to the profit and loss account. The deferred tax asset at the balance sheet date can be further analysed as follows:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Short-term timing differences	626	2,200	-	-
Accelerated capital allowances	159	-	-	-
Losses and other deductions	3,146	2,450	-	-
	<u>3,931</u>	<u>4,650</u>	<u>-</u>	<u>-</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Other loans and overdrafts	1,597	335	1,560	-
Amounts owed to credit institutions	239	1,261	-	-
Deferred consideration	7,724	5,825	-	777
Insurance and trade creditors	49,589	18,108	352	168
Amounts owed to subsidiary undertakings	-	-	9,606	1,562
Obligations under finance leases	120	282	-	-
Corporation tax payable	170	407	63	-
Other taxes and social security	1,119	786	22	223
Other creditors, accruals and deferred income	13,166	6,402	2,926	775
Provisions for unearned premiums	-	4,101	-	-
Claims outstanding	5,294	14,994	-	-
Equalisation provision	485	692	-	-
	<u>79,503</u>	<u>53,193</u>	<u>14,529</u>	<u>3,505</u>

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (CONTINUED)

Equalisation provisions exist in the balance sheet of Folgate Insurance Company Limited at 31 December 2003 and 31 December 2002 in accordance with the requirements of the Insurance Companies (Reserves) Regulations 1996. These provisions, which are in addition to the amounts required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by the Companies Act 1985 to be included in the consolidated balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. The requirement to include the equalisation provision overrides the requirement of the Companies Act 1985 to make fair value adjustments relating to acquired assets and liabilities, whereby the fair value of the equalisation provisions would have been reduced to nil for the purposes of calculating goodwill. The equalisation provisions have the effect of reducing shareholders' funds by £2,880,000 at 31 March 2004 (£3,572,000 at 31 March 2003).

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank loans	31,130	24,966	31,130	24,966
Other loans	2,039	37	2,039	24
Deferred consideration	2,265	4,070	-	483
Amounts owed to subsidiary undertakings	-	-	20,400	10,000
Obligations under finance leases	63	194	-	-
Claims outstanding	8,723	14,017	-	-
Equalisation provision	2,395	2,880	-	-
	46,615	46,164	53,569	35,473

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank loans are repayable as follows:				
Between one and two years	5,000	5,000	5,000	5,000
Between two and five years	27,000	21,000	27,000	21,000
	32,000	26,000	32,000	26,000
Less: un-amortised loan set-up costs	(870)	(1,034)	(870)	(1,034)
	31,130	24,966	31,130	24,966

Bank loan set-up costs are being amortised over the period of the loan tranche to which they relate.

Details of the security provided in relation to the company's loan with The Royal Bank of Scotland plc can be found in the directors' report.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Other loans and overdrafts are repayable as follows:				
Within one year	1,597	335	1,560	-
Between one and two years	1,500	13	1,500	-
Between two and five years	541	24	541	24
	<u>3,638</u>	<u>372</u>	<u>3,601</u>	<u>24</u>
Less: un-amortised loan set-up costs	(2)	-	(2)	-
	<u>3,636</u>	<u>372</u>	<u>3,599</u>	<u>24</u>

Included in other loans and overdrafts repayable within one year are overdrafts of £25,000 (2003: £244,000) repayable on demand. Included in other loans and overdrafts due within one year is £60,000 owed to directors of the company (2003: £24,000 due after more than one year).

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Obligations under finance leases are repayable as follows:				
Within one year	120	282	-	-
Between one and two years	63	153	-	-
Between two and five years	-	41	-	-
	<u>183</u>	<u>476</u>	<u>-</u>	<u>-</u>

Finance lease creditors are secured on the assets to which they relate.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Group £'000	Company £'000
Deferred tax provision at 1 April 2003	111	-
Deferred tax provisions acquired	8	-
Charge to profit and loss account in the year	48	83
Deferred tax provision at 31 March 2004	167	83
E&O provision at 1 April 2003	128	-
Provision no longer required	(53)	-
E&O provision at 31 March 2004	75	-
Total provision for liabilities and charges at 1 April 2003	239	-
Total provision for liabilities and charges at 31 March 2004	242	83

The deferred tax liability at 31 March 2004 can be further analysed as follows:

	Group £'000	Company £'000
Losses and other deductions	(6)	-
Accelerated capital allowances	175	-
Short-term timing differences	(2)	-
Deferred tax provision at 31 March 2004	167	-

The deferred tax provision for the group at 1 April 2003 arises from the origination and reversal of timing differences.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

16. FOLGATE INSURANCE COMPANY LIMITED PENSION COSTS

Folgate Insurance Company Limited, together with its former parent company, Wuestenrot and Wuertembergische AG, operated a pension scheme in respect of qualifying staff employed by the group within the UK which provided both benefits based on final pensionable salary and benefits based on the value of contributions. During the year to 31 December 2002, Folgate Insurance Company Limited gave notice of cessation of contributions to the scheme (effective 4 August 2002) and accordingly the scheme was put into wind-up by the Trustees. The assets of the scheme are held in a separate trust fund called the Folgate Insurance Company Limited Pension and Life Assurance Scheme. The principal assets of the scheme were transferred to Legal & General Assurance Society Limited during the year ended 31 December 2003 to secure benefits on wind-up. The Trust retains a beneficial interest in these assets until the wind up has been completed and benefits are assigned to members.

During the year to 31 December 2003 a single contribution of £1,067,000 was made to the scheme by Wuestenrot and Wuertembergische AG in accordance with contractual obligations. In addition, under the requirements of S75 Pensions Act 1995, a further payment will be due to the pension scheme from Folgate Insurance Company Limited. The Scheme Actuary has calculated the increase in the deficit as at 31 December 2003 and an amount of £1,950,000 (2002: £644,000) is provided within the balance sheet. This amount assumes a valuation date of 11 June 2003 when the market value of the scheme's assets was £8,700,000.

The trustees to the pension scheme have requested additional contributions be made by Folgate Insurance Company Limited in respect of that pension fund deficit. Discussions between Folgate Insurance Company Limited and the Trustees are continuing and it is anticipated that any eventual agreement will require ratification by a Court of law.

The assets of the defined contribution section of the Scheme are held separately from those of Folgate Insurance Company Limited in an independently administered fund and the assets are managed by Baring Asset Management under Trustee guidelines. The pension cost attributable to Folgate Insurance Company Limited in respect of members of this fund represents allocated contributions payable by Folgate Insurance Company Limited to the fund and amounted to £nil (2002: £94,000) in the year to 31 December 2003.

With effect from 1 August 2002 a Group Personal Pension Plan providing benefits based on the value of contributions has been made available to all staff. This plan is managed and administered by Axa UK Limited. Allocated contributions payable by Folgate Insurance Company Limited to the plan amounted to £27,000 (2002: £20,000) in the year to 31 December 2003.

The new Accounting Standard FRS 17 when implemented in full will require immediate recognition in the balance sheet of the net surplus or deficit in the final salary section of the scheme calculated as at the balance sheet date. The new standard requires the assets to be measured at their market value at that date and the liabilities to be discounted at the rate of return available at the balance sheet date on high quality corporate bonds. On the measurement bases prescribed by FRS 17, as at 31 December 2003, the market value of the final salary section's assets was £8,500,000 and the present value of its liabilities was £11,500,000, giving rise to a deficit of £3,000,000.

The main assumptions made in arriving at the FRS 17 valuation as at 31 December were:

	As at 31 December 2003 %	As at 31 December 2002 %
Rate of increase in salaries	N/A	N/A
Rate of increase in pension payments	3.50	3.25
Rate of increase in deferred pensions	2.80	2.30
Inflation assumption	2.80	2.30
Discount rate	5.50	5.50

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

16. FOLGATE INSURANCE COMPANY PENSION COSTS (CONTINUED)

	As at 31 December 2003 £'000	As at 31 December 2002 £'000
Value of assets of the final salary section of the scheme and expected rate of return at 31 December		
Value of the assets (bonds & cash)	8,500	7,600
Expected rate of return	4.5%	4.0%
	<u> </u>	<u> </u>
	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
Movement in deficit during the year		
Deficit in scheme at the beginning of the year	(2,486)	(3,328)
Current service cost	-	(160)
Contributions	-	306
Net interest cost	(216)	(303)
Actuarial (loss) / profit	(298)	999
	<u> </u>	<u> </u>
Deficit in scheme at the end of the year	<u>(3,000)</u>	<u>(2,486)</u>
	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
Analysis of net return on pension scheme		
Expected return on pension scheme assets	340	324
Interest on pension liabilities	(556)	(627)
	<u> </u>	<u> </u>
Net return	<u>(216)</u>	<u>(303)</u>
	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
Analysis of amount recognised in statement of total recognised gains and losses		
Actual return less expected return on assets	(265)	32
Experience gains on liabilities	1,067	1,629
Changes in assumptions	(1,100)	(662)
	<u> </u>	<u> </u>
Actuarial (loss) / gain recognised	(298)	999
Adjustment due to surplus cap	-	-
	<u> </u>	<u> </u>
Net (loss) / gain recognised	<u>(298)</u>	<u>999</u>

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

16. FOLGATE INSURANCE COMPANY PENSION COSTS (CONTINUED)

	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
History of experience gains and losses		
Difference between expected and actual return on scheme assets:	265	31
(percentage of scheme assets)	3%	0%
Experience gains on scheme liabilities:	1,067	1,629
(percentage of scheme liabilities)	9%	16%
Total amount recognised in statement of total recognised gains and losses:	298	999
(percentage of scheme liabilities)	3%	10%

17. CALLED UP SHARE CAPITAL

	2004 '000 shares	2004 £'000	2003 '000 shares	2003 £'000
Authorised:				
Ordinary A shares of 1p each	785	8	785	8
Ordinary B shares of £1 each	400	400	400	400
Deferred shares of 1p each	269	3	269	3
	1,454	411	1,454	411
Called up, allotted and fully paid:				
Ordinary A shares of 1p each	785	8	685	7
Ordinary B shares of £1 each	400	400	400	400
Deferred shares of 1p each	269	3	195	2
	1,454	411	1,280	409

The ordinary A shares are designated as voting (49.99%) and non-voting (50.01%). Those ordinary A shares designated as voting and all the ordinary B shares carry voting rights. The ordinary A shares and ordinary B shares participate equally in dividends and capital subject to the entitlement of ordinary A shares being limited in each case to a maximum of 49.99% of the total amount distributed, with the remainder being distributed to the holders of ordinary B shares. Holders of deferred shares do not qualify for any dividend or distribution, are not entitled to vote and on a return of capital rank after the ordinary shares.

On 27 June 2003, 74,106 deferred shares of 1p each were issued at par for cash.

On 27 June 2003, 100,440 ordinary A shares of 1p each were issued at par for cash.

On 13 April 2004, 57,963 deferred shares of 1p each were issued at par for cash.

On 13 April 2004, 107,744 ordinary A shares of 1p each were issued at par for cash.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

18. RESERVES

Group	Share capital called up and fully paid £'000	Share premium account £'000	Profit and loss reserve £'000	Equity share- holders' funds £'000
At 1 April 2003	409	600	6,331	7,340
Retained profit for the year	-	-	4,135	4,135
Issue of new shares	2	-	-	2
At 31 March 2004	411	600	10,466	11,477
Company				
At 1 April 2003	409	600	(5,633)	(4,624)
Retained loss for the year	-	-	(2,696)	(2,696)
Issue of new shares	2	-	-	2
At 31 March 2004	411	600	(8,329)	(7,318)

19. MINORITY INTERESTS

	Group 2004 £'000	Group 2003 £'000
Companies acquired	193	43

20. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES

	Group 2004 £'000	Group 2003 £'000
Operating profit before interest receivable	5,868	7,953
Depreciation	1,481	913
Goodwill amortisation	1,030	413
Amortisation of loan set-up costs	259	192
Release of negative goodwill	-	(11,888)
Loss on disposal of tangible fixed assets	2	22
(Increase) / decrease in debtors	(1,019)	10,642
(Decrease) in creditors and provisions	(2,835)	(25,755)
Net cash inflow / (outflow) from operating activities	4,786	(17,508)

Of the net cash inflow from operating activities for the group, an outflow of £10,908,000 (2003: £16,648,000) relates to the activities of Folgate Insurance Company Limited.

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

21. RECONCILIATION OF NET CASH INFLOW / OUTFLOW TO MOVEMENT IN NET FUNDS / DEBT

	Group 2004 £'000	Group 2003 £'000
(Decrease) / increase in cash in the year / period	(7,524)	46,759
Cash inflow from new long term loans	(10,536)	(26,024)
Issue costs of new long term loans	(162)	1,034
Repayment of long term loans	1,050	-
Repayment of acquired debt on acquisition	-	1,895
Repayments of capital element of finance leases	337	398
Movement in net funds arising from cash flow	(16,835)	24,062
Loans acquired with subsidiary undertakings	-	(1,998)
Finance leases acquired with subsidiary undertakings	(44)	(874)
Movement in net (debt) / funds in the year / period	(16,879)	21,190
Net funds at beginning of year / period	21,190	-
Net funds at end of year / period	4,311	21,190

22. ANALYSIS OF NET FUNDS

Group	At 31 March 2003 £'000	Non-cash transactions £'000	Cash flow in the year £'000	At 31 March 2004 £'000
Cash at bank and in hand	48,264	-	(8,765)	39,499
Overdraft and amounts owed to credit institutions	(1,505)	-	1,241	(264)
Debt due within one year	(91)	-	(1,481)	(1,572)
Debt due after one year	(25,002)	(259)	(7,908)	(33,169)
Capital element of finance leases	(476)	(44)	337	(183)
Net funds	21,190	(303)	(16,576)	4,311

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

23. POST BALANCE SHEET EVENTS

Since 31 March 2004 the following non-adjusting post balance sheet events have occurred.

The following portfolios have been disposed of by the group:

Name	Vendee	Date of disposal
Farmweb portfolio from Hill House Hammond	Towergate	30 June 2004

The following acquisitions have been made by the group:

Name	Vendor	Portfolio or company and % acquired	Date of acquisition
Hill House Hammond	Private	Portfolio	13 April 2004
F. G. Watts and Company (Insurance Brokers) Limited	Private	Company (100%) & portfolio	13 July 2004
Adams Tingle (Insurances) Limited	Private	Company (100%)	29 July 2004
Sterling Hamilton Wright Limited	Private	Company (100%) & assets	8 October 2004

24. RELATED PARTY TRANSACTIONS

P Cullum, the Chairman of The Folgate Partnership Limited, has a controlling interest in the Towergate Underwriting Group Limited (Towergate). All transactions between group companies and Towergate during the year have been negotiated on an arm's length basis and details of substantial transactions can be found within the financial statements of the individual group companies.

During the year The Folgate Partnership Limited has entered into a number of transactions with Towergate that involve the sale and purchase of a number of subsidiaries and portfolios of business. Full details can be found in notes 9 and 11.

During the year, the following transaction took place with P Cullum, a director of the company:

Folgate Insurance Company Limited purchased a freehold interest in land and buildings. The transaction was completed on an arm's length basis for a consideration of £930,575.

25. CAPITAL COMMITMENTS

Amounts authorised but not yet contracted for amounted to £827,000 for the group (2003: £630,000) and £827,000 for the company (2003: £380,000).

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

26. FINANCIAL COMMITMENTS

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

Group	Land & buildings 2004 £'000	Computer equipment 2004 £'000	Other 2004 £'000	Land & buildings 2003 £'000	Computer equipment 2003 £'000	Other 2003 £'000
Operating leases which expire within one year	477	-	41	45	-	192
In two to five years	230	198	176	186	193	157
In over five years	1,265	-	-	1,399	-	-
	<u>1,972</u>	<u>198</u>	<u>217</u>	<u>1,630</u>	<u>193</u>	<u>349</u>
Company						
Operating leases which expire within one year	-	-	-	-	-	-
In two to five years	-	193	-	-	193	-
In over five years	262	-	-	262	-	-
	<u>262</u>	<u>193</u>	<u>-</u>	<u>262</u>	<u>193</u>	<u>-</u>

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

27. EXTRACTS FROM FOLGATE INSURANCE COMPANY LIMITED FINANCIAL STATEMENTS AT 31 DECEMBER 2003

	Year to 31 December 2003 £'000	Year to 31 December 2002 £'000
PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT		
Earned premiums, net of reinsurance		
Gross premiums written	(122)	19,942
Outward reinsurance premiums	443	(13,375)
	<u>321</u>	<u>6,567</u>
Change in the gross provision for unearned premiums	4,101	28,114
Change in the provision for unearned premiums, reinsurers' share	(2,213)	1,008
	<u>1,888</u>	<u>29,122</u>
Earned premiums, net of reinsurance	2,209	35,689
Allocated investment return, transferred from non-technical account	1,219	1,951
Claims incurred, net of reinsurance		
Claims paid, gross amount	(15,442)	(34,660)
Claims paid, reinsurers' share	4,644	701
	<u>(10,798)</u>	<u>(33,959)</u>
Change in provision for claims, gross amount	15,819	1,719
Change in provision for claims, reinsurers' share	(3,341)	1,419
	<u>12,478</u>	<u>3,138</u>
Claims incurred, net of reinsurance	1,680	(30,821)
Net operating expenses	(3,808)	(18,008)
Change in equalisation provision	692	1,956
Balance of the technical account for general business	1,992	(9,233)
PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT		
Investment income	2,823	3,810
Investment expenses and charges	(559)	(763)
Investment return transferred to the technical account	(1,219)	(1,951)
Other income	-	2,175
	<u>3,037</u>	<u>(5,962)</u>
Profit / (loss) on ordinary activities before tax	3,037	(5,962)

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

27. EXTRACTS FROM FOLGATE INSURANCE COMPANY LIMITED FINANCIAL STATEMENTS AT 31 DECEMBER 2003 (CONTINUED)

BALANCE SHEET	As at 31 December 2003 £'000	As at 31 December 2002 £'000
ASSETS		
Investments		
Other financial investments	25,297	35,888
Reinsurers' share of technical provisions		
Provision for unearned premiums	-	2,213
Claims outstanding	2,039	5,380
	<u>2,039</u>	<u>7,593</u>
Debtors		
Debtors arising out of direct insurance operations	94	538
Debtors arising out of reinsurance operations	988	598
Other debtors	554	1,922
	<u>1,636</u>	<u>3,058</u>
Other assets		
Tangible fixed assets	959	129
Cash at bank and in hand	13,388	14,475
	<u>14,347</u>	<u>14,604</u>
Prepayments and accrued income		
Accrued interest and rent	1,353	731
Deferred acquisition costs	-	1,039
Other prepayments and accrued income	-	204
Tax recoverable	3,931	53
	<u>5,284</u>	<u>2,027</u>
Total assets	<u><u>48,603</u></u>	<u><u>63,170</u></u>

THE FOLGATE PARTNERSHIP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

27. EXTRACTS FROM FOLGATE INSURANCE COMPANY LIMITED FINANCIAL STATEMENTS AT 31 DECEMBER 2003 (CONTINUED)

	As at 31 December 2003 £'000	As at 31 December 2002 £'000
LIABILITIES		
Capital and reserves		
Called up share capital	22,500	22,500
Share premium account	15,814	15,814
Profit and loss account	(10,163)	(17,683)
Shareholders' funds attributable to equity interests	28,151	20,631
Technical provisions		
Provisions for unearned premiums	-	4,101
Claims outstanding	14,842	30,661
Equalisation provision	2,880	3,572
	17,722	38,334
Provisions for other risks and charges		
Provisions for pensions and similar obligations	1,975	644
Other provisions	112	112
	2,087	756
Creditors		
Creditors arising out of direct insurance operations	42	859
Creditors arising out of reinsurance operations	21	216
Amounts owed to credit institutions	239	1,261
Other creditors including taxation and social security	133	63
	435	2,399
Accruals and deferred income	208	1,050
Total liabilities	48,603	63,170

Unless otherwise stated below, Folgate Insurance Company Limited assets and liabilities are shown separately or under the same named headings in notes 10 to 15 to the financial statements. The exceptions are as follows:

Investments and cash at bank and in hand net of balances due from group undertakings are disclosed as cash at bank and in hand.

Debtors arising out of direct insurance and reinsurance operations are included in insurance and trade debtors. Other debtors include £537,000 due from group companies which is eliminated on consolidation.

Accrued interest and rent are included in prepayments and accrued income in note 12. All other asset balances are included in other debtors.

Creditors arising out of direct insurance and reinsurance operations are included in insurance and trade creditors. Other creditors include £83,000 due to group companies which is eliminated on consolidation.

Other provisions and accruals and deferred income are included in other creditors and accruals.

Other consolidation adjustments to assets and liabilities arise from the elimination of intercompany transactions.