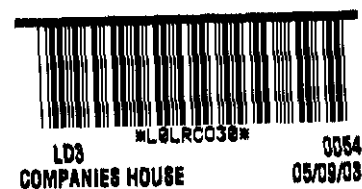


**THE FOLGATE PARTNERSHIP LIMITED**

(formerly Broomco (2719) Limited)

**Report and Financial Statements**

**For the period from 6 November 2001 to 31 March 2003**



# **THE FOLGATE PARTNERSHIP LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 MARCH 2003**

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# **THE FOLGATE PARTNERSHIP LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 MARCH 2003**

### **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 2003

### DIRECTORS' REPORT

The directors present their first annual report and the audited financial statements for the period from incorporation on 6 November 2001 to 31 March 2003. The company was formed on 6 November 2001 as Broomco (2719) Limited and changed its name on 20 November 2001 to The Folgate Partnership Limited.

### PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company's principal activity is as the ultimate holding company to a group of insurance brokers. The group effectively commenced trading with the acquisition of Folgate Insurance Company Limited on 11 April 2002 and the acquisition of Smithson Mason Group Limited on 16 April 2002. In the period to 31 March 2003 the group has grown rapidly through acquisitions of companies and portfolios of business and this growth has continued into the next financial year. Both the level of business and the period end financial position are satisfactory.

Pursuant to certain financing arrangements between The Royal Bank of Scotland plc ("RBS"), certain of its subsidiary companies 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 company 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 22 to the financial statements.

### DIVIDENDS

The directors do not propose the payment of a dividend.

### DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. The directors were appointed on the dates indicated below. The directors' interests in the share capital of the company at the end of the period were as follows:

Director	Date of appointment	Date of resignation	Number of Ordinary B shares
P Cullum	26 November 2001	-	276,000
A Homer	11 April 2002	-	48,000
K Maciver	26 November 2001	-	46,000
T Philip	11 April 2002	-	4,000
A Proverbs	26 November 2001	13 January 2003	4,000
J Dodd	26 November 2001	-	2,000
A Graham	30 August 2002	-	-
B McLaren	11 April 2002	-	-
DLA Nominees Limited	6 November 2001	26 November 2001	-
DLA Secretarial Limited	6 November 2001	26 November 2001	-

In addition, at 31 March 2003, P Cullum held 14,000 Ordinary B shares which were transferred to an employee benefit trust after 31 March 2003. No shares were held by the directors at the date of their appointment.

### POLITICAL AND CHARITABLE DONATIONS

The company made no political or charitable contributions during the period.

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

Director

*P Cullum*

Date

*4/9/03*

# **THE FOLGATE PARTNERSHIP LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 31 MARCH 2003**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 2003

### 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 period from incorporation on 6 November 2001 to 31 March 2003 which comprise the profit and loss account, the balance sheets, the reconciliation of movement in shareholders' funds, the consolidated cash flow statement and the related notes 1 to 26. 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 is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### Basis of opinion

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

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2003 and of the profit of the group for the period from incorporation on 6 November 2001 to 31 March 2003 and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP

Chartered Accountants and  
Registered Auditors  
London

*5 September 2003*

2003

# THE FOLGATE PARTNERSHIP LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Period ended 31 March 2003

	Note	Acquisitions & continuing activities 2003 £	Discontinued activities 2003 £	Total 2003 £
<b>TURNOVER</b>	2	11,982,521	1,434,686	13,417,207
Interest receivable		454,930	-	454,930
<b>OPERATING REVENUE</b>		12,437,451	1,434,686	13,872,137
Administrative expenses	3	(13,190,048)	(727,026)	(13,917,074)
Share of loss of Folgate Insurance Company Limited	3	-	(3,022,333)	(3,022,333)
Release of negative goodwill	3		11,888,229	11,888,229
Goodwill amortisation	3	(289,846)	(122,729)	(412,575)
<b>GROUP OPERATING (LOSS) / PROFIT</b>	3	(1,042,443)	9,450,827	8,408,384
Interest payable and similar charges	6	(1,947,183)	-	(1,947,183)
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(2,989,626)	9,450,827	6,461,201
<b>OPERATING REVENUE LESS ADMINISTRATIVE EXPENSES</b>				
		(752,597)	707,660	(44,937)
Tax charge on profit on ordinary activities	7			(82,846)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>				6,378,355
Minority interests - equity				(47,092)
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>				6,331,263
Dividends				-
<b>RETAINED PROFIT FOR PERIOD</b>				6,331,263

There are no recognised gains or losses for the current 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 acquisitions in the 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, and the activities of SMg Professional Risks Limited, which was sold by the company on 30 April 2003. The details of these transactions are outlined in note 10 and note 22 respectively.

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 accounts. The holding company loss for the period amounted to £5,633,162.

# THE FOLGATE PARTNERSHIP LIMITED

## CONSOLIDATED AND COMPANY BALANCE SHEETS

31 March 2003

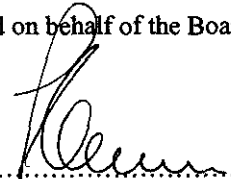
	Note	Group 2003 £	Company 2003 £
<b>FIXED ASSETS</b>			
Intangible fixed assets	8	22,520,777	-
Tangible fixed assets	9	5,007,904	1,408,361
Investments	10	77,406	18,446,074
		<u>27,606,087</u>	<u>19,854,435</u>
<b>CURRENT ASSETS</b>			
Debtors	11	31,110,093	13,576,743
Cash at bank and in hand		48,263,478	922,816
		<u>79,373,571</u>	<u>14,499,559</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>(70,090,988)</u>	<u>(3,505,581)</u>
<b>NET CURRENT ASSETS</b>		<u>9,282,583</u>	<u>10,993,978</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>36,888,670</b>	<b>30,848,413</b>
<b>CREDITORS: amounts falling due after more than one year</b>	13	<u>(29,267,154)</u>	<u>(35,472,775)</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	14	<u>(238,784)</u>	-
<b>MINORITY INTERESTS - EQUITY</b>	18	<u>(42,669)</u>	-
<b>NET ASSETS / (LIABILITIES)</b>		<u><u>7,340,063</u></u>	<u><u>(4,624,362)</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	408,800	408,800
Share premium account	17	600,000	600,000
Profit and loss account	17	6,331,263	(5,633,162)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17	<u><u>7,340,063</u></u>	<u><u>(4,624,362)</u></u>

These financial statements were approved by the Board of Directors on

4/9/03

2003.

Signed on behalf of the Board of Directors



Director

P.G. Collum



# THE FOLGATE PARTNERSHIP LIMITED

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

31 March 2003

	Note	Group 2003 £	Company 2003 £
<b>LOSS ATTRIBUTABLE TO SHAREHOLDERS BEFORE GOODWILL AMORTISATION AND RELEASE OF NEGATIVE GOODWILL</b>			
Subsidiary undertakings		3,511,104	-
Holding company		(5,633,162)	(5,633,162)
Share of loss in Folgate Insurance Company Limited		(3,022,333)	-
		<u>(5,144,391)</u>	<u>(5,633,162)</u>
Dividends		-	-
Goodwill amortisation		(412,575)	-
Release of negative goodwill		11,888,229	-
New shares issued		<u>1,008,800</u>	<u>1,008,800</u>
<b>NET MOVEMENT IN SHAREHOLDERS' FUNDS</b>		<b>7,340,063</b>	<b>(4,624,362)</b>
<b>OPENING EQUITY SHAREHOLDERS' FUNDS</b>	17	<u>-</u>	<u>-</u>
<b>CLOSING EQUITY SHAREHOLDERS' FUNDS</b>	17	<u><u>7,340,063</u></u>	<u><u>(4,624,362)</u></u>

# THE FOLGATE PARTNERSHIP LIMITED

## CONSOLIDATED CASH FLOW STATEMENT

Period ended 31 March 2003

	Note	2003 £	2003 £
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	19		<b>(17,507,533)</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest and other investment income received		454,930	
Interest paid		(1,512,207)	
Interest element of finance lease payments		(39,923)	
			<b>(1,097,200)</b>
<b>TAXATION</b>			
Corporation tax paid			<b>(150,364)</b>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire tangible fixed assets		(3,112,744)	
Expenditure on investments not completed at 31 March 2003		(64,923)	
Disposal proceeds from the sale of fixed assets		503,936	
Disposal proceeds from the sale of investments		2,000	
			<b>(2,671,731)</b>
<b>ACQUISITIONS AND DISPOSALS</b>			
Purchase of subsidiary undertakings	10	(25,949,083)	
Net cash acquired with subsidiaries	10	70,657,550	
			<b>44,708,467</b>
<b>NET CASH INFLOW BEFORE FINANCING</b>			<b>23,281,639</b>
<b>FINANCING</b>			
Issue of ordinary share capital		972,430	
New long term loans	20	26,024,000	
Loan set-up costs	20	(1,226,372)	
Capital element of finance lease payments	20	(398,147)	
Repayment of acquired debt	20	(1,894,916)	
			<b>23,476,995</b>
<b>INCREASE IN CASH IN THE PERIOD</b>			<b>46,758,634</b>
<b>Represented by:</b>			
Cash at bank and in hand			48,263,478
Overdraft balances			(243,935)
Amounts owed to credit institutions			(1,260,909)
			<b>46,758,634</b>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

### 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 2003. 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 2002, 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 2002.

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 has been amortised in full to the profit and loss account for the period to 31 March 2003.

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

### Turnover

Turnover represents brokerage and fees for services provided. Brokerage is recognised on the later of inception or renewal date of a risk or when a cover note is issued to the insured. Profit or volume based commissions, which are received periodically, are recognised in turnover in the accounting period to which they relate if the amount is received or the amount has been confirmed by the relevant provider prior to the period end accounts being finalised. Otherwise such commissions will be recognised in the following accounting period.

### 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:

Freehold property	2% straight line
Property and leasehold improvements	Life of lease
Furniture and equipment	10-33% straight line
Motor vehicles	25-33% straight line
Computer equipment	10-25% straight line
IT software, development and licence costs	12.5-25% straight line

### Leased assets

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

### Subsidiary undertakings

Investments in subsidiary undertakings are stated in the balance sheet of the company 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 15) 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

Period ended 31 March 2003

*Policies related to the insurance and investment balances of Folgate Insurance Company Limited at and for the year to 31 December 2002 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.

### 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 12).

### 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.

### 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 cost unless there has been an impairment in value.

All investments of the insurance company are included as cash in the consolidated balance sheet. The cash balance includes £26,756,000 of debt securities and other fixed interest securities which are carried at amortised cost and had a historical cost of £27,386,000. All of these securities are listed on the UK Stock Exchange or other investment exchanges. The market value of the debt securities at year end was £27,105,000 and the ultimate redemption value of the debt securities was £26,100,000.

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

### 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 activity in the United Kingdom. The group operates primarily as an insurance broker, however profit before taxation and minority interests and net assets include the results and balance sheet of the insurance company (note 1). Turnover, profit before taxation and minority interests and net assets can be analysed as follows:

Activity	Turnover 2003 £	Profit/(loss) on ordinary activities before taxation 2003 £	Net assets 2003 £
<b>Acquisitions and continuing activities:</b>			
Holding company	-	(5,633,162)	(4,624,362)
Insurance broking	11,982,521	2,643,536	2,436,201
<b>Discontinued activities:</b>			
Insurance broking	1,434,686	584,931	39,184
Insurance company (note 26)	-	8,865,896	9,489,040
	<u>13,417,207</u>	<u>6,461,201</u>	<u>7,340,063</u>

## 3. OPERATING PROFIT

	Group 2003 £
<b>Operating profit is stated after charging / (crediting):</b>	
Auditors' remuneration for audit - (company: £54,800)	132,778
Auditors' remuneration for other services	16,785
Goodwill amortisation (note 8)	412,575
Amortisation of loan set-up costs	192,146
Release of negative goodwill (note 8)	(11,888,229)
Share of operating loss of Folgate Insurance Company Limited	3,022,333
Depreciation on owned assets	808,054
Depreciation on assets held under finance lease	104,934
Loss on disposal of fixed assets	21,949
Operating lease rentals	<u>1,196,278</u>

In addition to the fees payable to the auditors in relation to audit and other services disclosed above, £45,643 was paid during the period in relation to capital transactions.

The share of operating loss of Folgate Insurance Company Limited includes amounts in respect of depreciation on owned assets (£121,000), loss on disposal of fixed assets (£34,000) and operating lease rentals (£466,000) that are also disclosed within the totals under these headings in this note.

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

### 4. DIRECTORS' REMUNERATION

	Group 2003 £
<b>Total remuneration of all directors:</b>	
Aggregate emoluments	1,093,927
Company pension contributions to money purchase schemes	<u>124,511</u>
<b>Remuneration of the highest paid director:</b>	
Aggregate emoluments	284,387
Company pension contributions to money purchase schemes	<u>27,662</u>

During the period 6 directors have received benefits by way of pension contributions to money purchase schemes.

### 5. STAFF COSTS AND OTHER INFORMATION

	Group 2003 £
<b>Staff costs including directors' remuneration:</b>	
Wages and salaries	8,106,528
Social security costs	907,579
Other pension costs	1,220,642
Other related employment costs	<u>1,153,525</u>
	<u>11,388,274</u>
<b>Average monthly number of persons employed:</b>	<u>489</u>

Included in staff costs and other information are staff costs of £3,087,329 and average monthly employees of 70 in relation to Folgate Insurance Company Limited.

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	Group 2003 £
Bank interest and charges	86,818
Loan interest	1,820,442
Finance lease interest	<u>39,923</u>
	<u>1,947,183</u>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

### 7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	Group 2003 £
UK corporation tax on profit on ordinary activities for the period	-
Deferred taxation (note 14)	82,846
<b>Tax charge on profit on ordinary activities</b>	<b>82,846</b>

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

	Group 2003 £
<b>Profit on ordinary activities before tax</b>	<b>6,461,201</b>
Corporation tax on profit on ordinary activities at standard rate	1,938,361
<b>Factors affecting the charge for the period:</b>	
Expenses not deductible for tax purposes	381,289
Capital allowances in excess of depreciation	(89,075)
Indexation allowance on capital disposals	(111,481)
Losses utilised	(1,319)
Goodwill amortised and negative goodwill released	(3,442,697)
Adjustment for pre-acquisition profits for tax purposes	(168,360)
Pre-acquisition trading factors affecting tax charge	(1,297,159)
Consolidation adjustments	270,171
Losses carried forward	2,520,270
<b>UK corporation tax on profit on ordinary activities for the period</b>	<b>-</b>

### 8. INTANGIBLE FIXED ASSETS

Group	£
<b>Cost</b>	
At 6 November 2001	-
Positive goodwill from additions	22,933,352
Negative goodwill from additions	(11,888,229)
<b>At 31 March 2003</b>	<b>11,045,123</b>
<b>Accumulated amortisation</b>	
At 6 November 2001	-
Charge for the period	412,575
Release of negative goodwill	(11,888,229)
<b>At 31 March 2003</b>	<b>(11,475,654)</b>
<b>Net book value</b>	
At 6 November 2001	-
<b>At 31 March 2003</b>	<b>22,520,777</b>



# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Period ended 31 March 2003

### 9. TANGIBLE FIXED ASSETS

Group	Property & leasehold improvements £	Motor vehicles £	Furniture & equipment £	Computer equipment £	IT software, development & licences £	Total £
<b>Cost</b>						
At 6 November 2001	-	-	-	-	-	-
Additions	243,473	20,323	93,193	609,475	2,916,280	3,882,744
Companies acquired	655,811	1,080,416	1,367,032	3,110,558	-	6,213,817
Disposals	(225,000)	(289,577)	(62,895)	(212,645)	-	(790,117)
<b>At 31 March 2003</b>	<b>674,284</b>	<b>811,162</b>	<b>1,397,330</b>	<b>3,507,388</b>	<b>2,916,280</b>	<b>9,306,444</b>
<b>Accumulated depreciation</b>						
At 6 November 2001	-	-	-	-	-	-
Companies acquired	121,248	367,964	838,238	2,322,334	-	3,649,784
Disposals	(6,709)	(96,347)	(27,856)	(133,320)	-	(264,232)
Charge for the period	33,658	62,271	92,305	399,973	324,781	912,988
<b>At 31 March 2003</b>	<b>148,197</b>	<b>333,888</b>	<b>902,687</b>	<b>2,588,987</b>	<b>324,781</b>	<b>4,298,540</b>
<b>Net book value</b>						
At 6 November 2001	-	-	-	-	-	-
<b>At 31 March 2003</b>	<b>526,087</b>	<b>477,274</b>	<b>494,643</b>	<b>918,401</b>	<b>2,591,499</b>	<b>5,007,904</b>

Company	Property & leasehold improvements £	Motor vehicles £	Furniture & equipment £	Computer equipment £	IT software, development & licences £	Total £
<b>Cost</b>						
At 6 November 2001	-	-	-	-	-	-
Additions	218,420	-	31,222	371,090	837,680	1,458,412
<b>At 31 March 2003</b>	<b>218,420</b>	<b>-</b>	<b>31,222</b>	<b>371,090</b>	<b>837,680</b>	<b>1,458,412</b>
<b>Accumulated depreciation</b>						
At 6 November 2001	-	-	-	-	-	-
Charge for the period	4,614	-	2,640	42,797	-	50,051
<b>At 31 March 2003</b>	<b>4,614</b>	<b>-</b>	<b>2,640</b>	<b>42,797</b>	<b>-</b>	<b>50,051</b>
<b>Net book value</b>						
At 6 November 2001	-	-	-	-	-	-
<b>At 31 March 2003</b>	<b>213,806</b>	<b>-</b>	<b>28,582</b>	<b>328,293</b>	<b>837,680</b>	<b>1,408,361</b>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

The net book value and depreciation charge in relation to group tangible fixed assets held under finance lease is as follows (the company has no finance leases):

Group	NBV 2003 £	Depreciation 2003 £
Motor vehicles	389,174	39,699
Fixtures and fittings	112,939	34,416
Computer equipment	90,056	30,819
	<u>592,169</u>	<u>104,934</u>

### 10. INVESTMENTS

Group	£
At 6 November 2001	-
Unlisted investments acquired	12,483
Expenditure on investments not completed at 31 March 2003	64,923
<b>Cost as at 31 March 2003</b>	<u><u>77,406</u></u>

Subsidiary undertakings:	Group £	Company £
<b>Cost</b>		
At 6 November 2001	-	-
Additions	35,075,520	18,446,074
<b>At 31 March 2003</b>	<u><u>35,075,020</u></u>	<u><u>18,446,074</u></u>
<b>Amounts provided</b>		
At 6 November 2001	-	-
In the period	-	-
<b>At 31 March 2003</b>	<u><u>-</u></u>	<u><u>-</u></u>
<b>Net book value</b>		
At 6 November 2001	-	-
<b>At 31 March 2003</b>	<u><u>35,075,520</u></u>	<u><u>18,446,074</u></u>

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. 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 subsidiary undertakings were all acquired during the period. The assets and liabilities acquired are disclosed in aggregate, but exclude the acquisition of the Folgate Insurance Company Limited which is shown separately.

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

Subsidiary undertaking	Date of acquisition	Principal activity
The Folgate Broker Partnership Limited	22 March 2002	Intermediary holding company
The Folgate Underwriting Agency Limited	22 March 2002	Underwriting agency
Folgate Network Partnership Limited	6 February 2002	Insurance marketing
The Folgate Underwriting Services Limited	22 March 2002	Service company
Folgate Insurance Company Limited	11 April 2002	Insurance company
Smithson Mason Group Limited	16 April 2002	Intermediary holding company
SMg Professional Risks Limited (formerly Smithson Mason Limited)	16 April 2002	Insurance broking
RBR Holdings Limited	8 February 2003	Intermediary holding company
RBR Insurance Brokers Limited	8 February 2003	Insurance broking
Bervale Mead Insurance Brokers Limited	30 September 2002	Insurance broking
Seymour Pope Risk Solutions Limited	20 January 2003	Insurance broking
Clarke Cooper & Company Limited	6 January 2003	Insurance broking
DPR Holdings Limited	6 February 2003	Intermediary holding company
DPR Commercial Insurance Brokers Limited	6 February 2003	Insurance broking
DPR Trustees Limited	6 February 2003	Trustee company
Duncan Pocock (Holdings) Limited (92.5%)	2 July 2002	Intermediary holding company
Duncan Pocock (Insurance Brokers) Limited (92.5%)	2 July 2002	Insurance broking
Redline Business Insurance Services Limited (92.5%)	2 July 2002	Dormant
Redline Personal Insurance Services Limited (92.5%)	2 July 2002	Dormant
Duncan Pocock (Commercial Direct) Limited (92.5%)	2 July 2002	Dormant
Willett & Ross Limited	14 October 2002	Insurance broking
Pallett & Collins (General Insurance Services) Limited	22 January 2003	Intermediary holding company
Pallett & Collins (Commercial) Limited	22 January 2003	Insurance broking

### Folgate Insurance Company Limited

	Book value £	Fair value adjustment £	Fair value £
<b>Assets and liabilities acquired:</b>			
Insurance debtors	11,599,000	-	11,599,000
Other debtors and prepayments	9,583,000	-	9,583,000
Reinsurers' share of technical provisions	4,280,000	-	4,280,000
Fixed assets	300,000	-	300,000
Cash at bank	66,502,631	-	66,502,631
Deferred tax asset	-	4,650,000	4,650,000
Amounts owed to credit institutions	(574,000)	-	(574,000)
Insurance creditors	(192,000)	-	(192,000)
Other creditors	(1,802,997)	(2,200,000)	(4,002,997)
Provisions for unearned premiums	(27,556,000)	-	(27,556,000)
Claims outstanding	(34,876,000)	1,650,000	(33,226,000)
Equalisation provision	(5,211,000)	-	(5,211,000)
<b>Net assets</b>	<b>22,052,634</b>	<b>4,100,000</b>	<b>26,152,634</b>
Negative goodwill arising on acquisition			(11,888,229)
<b>Cost of acquisition</b>			<b>14,264,405</b>
<b>Cost of acquisition comprised:</b>			
Cash			14,264,405

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

Fair value adjustments on the acquisition of Folgate Insurance Company Limited arise as follows:

The deferred tax asset reflects the accumulated tax losses in Folgate Insurance Company Limited which are considered reasonably likely to be recoverable following acquisition by The Folgate Partnership Limited, based on current tax law.

Other creditors have been adjusted to include a pension provision representing an estimate of the likely cost to settle a disputed request for additional contributions made by the trustees to Folgate Insurance Company Limited pension scheme in respect of the pension fund deficit (note 15).

Claims outstanding in Folgate Insurance Company Limited will be settled over a period of years and, as permitted by applicable accounting standards, the liability has been discounted to reflect the anticipated settlement pattern and the anticipated return on available cash and investments in the company over the relevant period.

Acquisitions excluding Folgate Insurance Company Limited		Fair value	
	Book value	adjustment	Fair value
	£	£	£
<b>Assets and liabilities acquired:</b>			
Intangible fixed assets	3,774,965	(3,774,965)	-
Investments	14,483	-	14,483
Tangible fixed assets	2,264,033	-	2,264,033
Insurance broking debtors	9,818,248	-	9,818,248
Debtors	1,785,155	-	1,785,155
Cash at bank	5,956,754	-	5,956,754
Bank overdraft	(1,227,835)	-	(1,227,835)
Loans	(1,998,810)	-	(1,998,810)
Insurance broking creditors	(14,105,154)	-	(14,105,154)
Taxation	(584,896)	-	(584,896)
Finance leases	(874,412)	-	(874,412)
Other creditors and accruals	(3,169,803)	-	(3,169,803)
<b>Net assets</b>	<b>1,652,728</b>	<b>(3,774,965)</b>	<b>(2,122,237)</b>
Goodwill arising on acquisition			22,933,352
<b>Cost of acquisition</b>			<b>20,811,115</b>
<b>Cost of acquisition comprised:</b>			
Cash			11,684,678
Deferred consideration			9,126,437
			<b>20,811,115</b>

Fair value adjustments for other acquisitions reflect the zero valuation applied to goodwill in the balance sheets of subsidiaries for the purposes of determining the acquisition price.

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 period generated a net operating cash outflow of £14,553,000 (Folgate Insurance Company Limited outflow: £16,648,000), received £121,000 in respect of net returns on investments and servicing of finance, paid £150,000 in respect of taxation, generated a net inflow of £159,000 from capital transactions (Folgate Insurance Company Limited inflow: £16,000), provided £70,658,000 of cash at the date of acquisition (Folgate Insurance Company Limited: £65,929,000), and generated a net cash outflow of £10,398,000 in the repayment of debt (Folgate Insurance Company Limited £10,000,000).

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Period ended 31 March 2003

### 11. DEBTORS: AMOUNTS DUE WITHIN ONE YEAR

	Group 2003 £	Company 2003 £
Insurance debtors	13,720,789	-
Amounts due from group undertakings	-	12,973,790
Reinsurers' share of technical provisions	7,592,703	-
Other debtors	3,934,416	539,900
Deferred tax asset	4,650,000	-
Prepayments and accrued income	1,212,185	63,053
	<u>31,110,093</u>	<u>13,576,743</u>

Debtors include a deferred tax asset of £4,650,000 (company: £nil) acquired with Folgate Insurance Company Limited (note 10). 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 deferred tax asset can be further analysed as follows:

	Group 2003 £	Company 2003 £
Short term timing differences	2,200,000	-
Losses and other deductions	2,450,000	-
	<u>4,650,000</u>	<u>-</u>

### 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2003 £	Company 2003 £
Other loans and overdrafts	335,329	-
Amounts owed to credit institutions	1,260,909	-
Deferred consideration	5,825,477	777,292
Insurance and trade creditors	18,107,955	167,466
Amounts owed to group undertakings	-	1,562,106
Obligations under finance leases	282,345	-
Corporation tax payable	406,595	-
Other taxes and social security	786,048	223,254
Other creditors and accruals	3,558,994	775,463
Pension provision	2,843,737	-
Provisions for unearned premiums	4,101,000	-
Claims outstanding	29,011,000	-
Equalisation provision	3,571,599	-
	<u>70,090,988</u>	<u>3,505,581</u>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

Equalisation provisions exist in the balance sheet of Folgate Insurance Company Limited at 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 be reduced to nil. The equalisation provisions have the effect of reducing shareholders' funds by £3,571,599 at 31 March 2003.

### 13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2003 £	Company 2003 £
Bank loans	24,965,774	24,965,774
Other loans	36,500	24,000
Deferred consideration	4,070,960	483,001
Amounts owed to group undertakings	-	10,000,000
Obligations under finance leases	193,920	-
	<u>29,267,154</u>	<u>35,472,775</u>

	Group 2003 £	Company 2003 £
<b>Bank loans are repayable as follows:</b>		
Between one and two years	5,000,000	5,000,000
Between two and five years	21,000,000	21,000,000
	<u>26,000,000</u>	<u>26,000,000</u>
Less: unamortised loan set-up costs	(1,034,226)	(1,034,226)
	<u>24,965,774</u>	<u>24,965,774</u>

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.

	Group 2003 £	Company 2003 £
<b>Other loans and overdrafts are repayable as follows:</b>		
Within one year	335,329	-
Between one and two years	12,500	-
Between two and five years	24,000	24,000
	<u>371,829</u>	<u>24,000</u>

Included in other loans and overdrafts repayable within one year are overdrafts of £243,935 repayable on demand. Included in other loans and overdrafts due after more than one year is £24,000 owed to directors of the company.

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

	Group 2003 £	Company 2003 £
<b>Obligations under finance leases are repayable as follows:</b>		
Less than one year	282,345	-
Between one and two years	153,323	-
Between two and five years	40,597	-
	<u>476,265</u>	<u>-</u>

### 14. PROVISIONS FOR LIABILITIES AND CHARGES

	Group 2003 £	Company 2003 £
Provision at 6 November 2001	-	-
Deferred tax liabilities acquired	27,938	-
Charge to profit and loss account in the period	82,846	-
<b>Deferred tax provision at 31 March 2003</b>	<u>110,784</u>	<u>-</u>
Provision for Errors and Omissions and other claims	128,000	-
<b>Total provisions for liabilities and charges</b>	<u>238,784</u>	<u>-</u>

The deferred tax liability at 31 March 2003 can be further analysed as follows:

	Group 2003 £	Company 2003 £
Origination and reversal of timing differences	112,391	-
Short term timing differences	(1,607)	-
<b>Deferred tax provision at 31 March 2003</b>	<u>110,784</u>	<u>-</u>

### 15. 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. Baring Asset Management Limited manages the scheme's assets under trustee guidelines. Folgate Insurance Company Limited contributions due to the scheme have been charged to the profit and loss account. These contributions have been determined by a qualified actuary based on a valuation as at 11 April 2002 prepared in accordance with the Occupational Pension Scheme (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996.

This valuation showed the market value of the scheme's assets was £7,061,000 representing 87% of the Minimum Funding Requirement liabilities. A single contribution of £1,056,000 has been received from Wuestenrot and Wuertembergische AG in respect of this deficit. The Scheme Actuary has calculated the increase in the deficit as at 31 December 2002 and an amount of £644,000 (2001: £144,000) is provided in the balance sheet of Folgate Insurance Company Limited at 31 December 2002 in respect of this. The pension

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

charge for the year to 31 December 2002 in respect of Folgate Insurance Company Limited including the movement on this provision was £786,000.

The trustees to the pension scheme have requested additional contributions be made by Folgate Insurance Company Limited in respect of the pension fund deficit. On the basis of advice from Legal Counsel and discussions with the trustees, an additional amount of £2,200,000 has been provided in these financial statements.

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. The pension cost attributable to Folgate Insurance Company Limited in respect of members of this fund represents contributions payable by the Folgate Insurance Company Limited to the fund and amounted to £94,000 (2001: £67,000).

With effect from 1 August 2002 a Group Personal Pension Plan providing benefits based on the value of contributions has been available to all staff. This plan is managed and administered by AXA UK Limited. Contributions payable by Folgate Insurance Company Limited to the plan amounted to £20,000.

The new Financial Reporting Standard 17 ("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 2002, the market value of the final salary section's assets was £7,614,000 and the present value of its liabilities was £10,100,000, giving rise to a deficit of £2,486,000. Including the additional amount referred to above, the group balance sheet is carrying liabilities of £2,955,737 as at 31 March 2003.

The main assumptions made in arriving at the FRS 17 valuation as at 31 December 2002 were:

	As at 31 December 2002 %	As at 31 December 2001 %
Rate of increase in salaries	N/A	5.00
Rate of increase in pension payments	3.25	3.25
Rate of increase in deferred pensions	2.30	2.50
Inflation assumption	2.30	2.50
Discount rate	5.50	6.00

The value of the assets of the final salary section of the scheme and the expected rate of return as at 31 December 2002 were:

	As at 31 December 2002	As at 31 December 2001
Value of the assets (bonds & cash)	£7.6m	£7.1m
Expected rate of return	4.0%	4.5%



# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

	Year to 31 December 2002 £'000
<b>Movement in surplus during the year</b>	
Deficit in scheme at beginning of year	(3,328)
Current service cost	(160)
Contributions	306
Net return on assets/(interest cost)	(303)
Actuarial gain	999
<b>Deficit in scheme at end of year</b>	<b>(2,486)</b>

	Year to 31 December 2002 £'000
<b>Analysis of net return on pension scheme</b>	
Expected return on pension scheme assets	324
Interest on pension liabilities	(627)
<b>Net return</b>	<b>(303)</b>

	Year to 31 December 2002 £'000
<b>Analysis of amount recognised in statement of total recognised gains and losses</b>	
Actual return less expected return on assets	32
Experience gains and losses on liabilities	1,629
Changes in assumptions	(662)
<b>Actuarial gain recognised in statement of total recognised gains and losses</b>	<b>999</b>
Adjustment due to surplus cap	-
<b>Net gain recognised</b>	<b>999</b>

	Financial year ended 31 December 2002 £'000
<b>History of experience gains and losses</b>	
Difference between expected and actual return on scheme assets: (percentage of scheme assets)	32 0%
Experience gains and losses on scheme liabilities: (percentage of scheme assets)	1,629 16%
<b>Total amount recognised in statement of total recognised gains and losses: (percentage of scheme assets)</b>	<b>999 10%</b>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

### 16. CALLED UP SHARE CAPITAL

	2003 No. of shares	2003 £
<b>Authorised:</b>		
Ordinary A shares of 1p each	785,186	7,852
Ordinary B shares of £1 each	400,000	400,000
Deferred shares of 1p each	269,360	2,694
	<u>1,454,546</u>	<u>410,546</u>
<b>Called up, allotted and fully paid:</b>		
Ordinary A shares of 1p each	684,746	6,847
Ordinary B shares of £1 each	400,000	400,000
Deferred shares of 1p each	195,254	1,953
	<u>1,280,000</u>	<u>408,800</u>

At 31 March 2003 14,000 shares issued to P G Cullum were unpaid. These shares were transferred to an Employee Benefit Trust subsequent to the period end and settled through the inter-company account.

On 6 November 2001, 2 ordinary B shares of £1 each were issued for £2.50 per share.

On 8 April 2002, a further 399,998 ordinary B shares of £1 each were issued for £2.50 per share.

On 11 April 2002, 399,999 ordinary A (voting) shares of 1p each were issued at par.

On 11 April 2002, 142,857 deferred shares of 1p each were issued at par.

On 11 April 2002, 200,001 ordinary A (non-voting) shares of 1p each were issued at par.

On 10 January 2003, 52,397 deferred shares of 1p each were issued at par.

On 10 January 2003, 84,746 ordinary A (non-voting) shares of 1p each were issued at par.

### 17. RESERVES

Group	Share capital called up and fully paid £	Share premium account £	Profit and loss reserve £	Equity shareholders' funds £
At 6 November 2001	-	-	-	-
Retained profit for the period	-	-	6,331,263	6,331,263
Issue of new shares	408,800	600,000	-	1,008,800
<b>At 31 March 2003</b>	<u>408,800</u>	<u>600,000</u>	<u>6,331,263</u>	<u>7,340,063</u>
<b>Company</b>				
At 6 November 2001	-	-	-	-
Retained loss for the period	-	-	(5,633,162)	(5,633,162)
Issue of new shares	408,800	600,000	-	1,008,800
<b>At 31 March 2003</b>	<u>408,800</u>	<u>600,000</u>	<u>(5,633,162)</u>	<u>(4,624,362)</u>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

### 18. MINORITY INTERESTS

	Group 2003 £
Companies acquired	42,669

### 19. RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Group 2003 £
Operating profit before interest receivable	7,953,454
Depreciation	912,988
Goodwill amortisation	412,575
Amortisation of loan set-up costs	192,146
Release of negative goodwill	(11,888,229)
Loss on sale of tangible fixed assets	21,949
Decrease in debtors	10,641,681
(Decrease) in creditors and provisions	(25,754,097)
<b>Net cash outflow from operating activities</b>	<b>(17,507,533)</b>

Of the net cash outflow from operating activities for the group, an outflow of £16,648,000 relates to the activities of Folgate Insurance Company Limited.

### 20. RECONCILIATION OF NET CASH INFLOW TO MOVEMENT IN NET FUNDS

	Group 2003 £
Increase in cash in the period	46,758,634
Cash inflow from new long term loans	(26,024,000)
Issue costs of new long term loans	1,034,226
Repayment of acquired debt on acquisition	1,894,916
Repayments of capital element of finance leases	398,147
<b>Movement in net funds arising from cashflow</b>	<b>24,061,923</b>
Loans acquired with subsidiary undertakings	(1,998,810)
Finance leases acquired with subsidiary undertakings	(874,412)
<b>Movement in net funds in the period</b>	<b>21,188,701</b>
<b>Net funds at 6 November 2001</b>	<b>-</b>
<b>Net funds at 31 March 2003</b>	<b>21,188,701</b>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Period ended 31 March 2003

### 21. ANALYSIS OF NET FUNDS / (DEBT)

Group	6 November 2001 £	Non-cash transactions £	Cash flow in period £	31 March 2003 £
Cash at bank and in hand	-	-	48,263,478	48,263,478
Overdraft and amounts owed to credit institutions	-	-	(1,504,844)	(1,504,844)
Debt due within one year	-	-	(91,394)	(91,394)
Debt due after one year	-	(192,146)	(24,810,128)	(25,002,274)
Capital element of finance leases	-	-	(476,265)	(476,265)
<b>Net funds / (debt)</b>	<b>-</b>	<b>(192,146)</b>	<b>21,380,847</b>	<b>21,188,701</b>

### 22. POST BALANCE SHEET EVENTS

Since 31 March 2003 the following non-adjusting post balance sheet events have occurred.

The following companies have been disposed of by the group:

SMg Professional Risks Limited was sold on 30 April 2003 to the Towergate Underwriting Group Limited ("Towergate"). Prior to sale of this company all of the business, assets and liabilities other than those related to the Professional Risks portfolio were sold to another subsidiary of The Folgate Partnership Limited. The activities of this company, to the extent that they relate to the Professional Risks portfolio, have been disclosed as discontinued in the results of the group for the period ended 31 March 2003.

The following acquisitions have been made by the group since 31 March 2003:

Name	Vendor	Portfolio or company and % acquired	Date of acquisition
Devonshire Wilson	Private	Portfolio	4 April 2003
Towergate Commercial Underwriting	Towergate	Portfolio	30 April 2003
Byas Mosley UK Limited	Towergate	Company 100%	30 April 2003
Towergate Stafford Knight Limited	Towergate	Company 100%	30 April 2003
Towergate Sharp Insurance Brokers Limited	Towergate	Company 100%	30 April 2003
Canterbury Insurance Practice Limited	Towergate	Company 100%	30 April 2003
Rickard Lazenby & Co	Private	Portfolio	31 May 2003
Peel Thompson Fletcher Limited	Private	Company 100%	5 June 2003
Peter Hill Risk Solutions Limited	Private	Company 100%	15 July 2003
Crossways Insurance Brokers Limited	Private	Company 100%	1 August 2003
Vulcan Insurance Brokers Limited	Private	Company 100%	29 August 2003

### 23. RELATED PARTY TRANSACTIONS

Mr P Cullum, the Chairman of The Folgate Partnership Limited, has a controlling interest in Towergate. All transactions between group companies and Towergate during the period have been negotiated on an arms length basis and details of substantial transactions can be found within the financial statements of the individual group companies.

Since the period end 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 note 22.

In the balance sheet of the group at 31 March 2003, the following balances existed in relation to Towergate:

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

		At 31 March
Subsidiary undertakings		2003
		£
The Folgate Partnership Limited	Debtor	151,712
The Folgate Underwriting Services Limited	Debtor	67,615
Folgate Insurance Company Limited	Debtor	900,000
Duncan Pocock (Insurance Brokers) Limited	Creditor	(66,800)

These balances exclude any assets or liabilities arising from insurance broking activities.

### 24. CAPITAL COMMITMENTS

Amounts authorised but not yet contracted for amounted to £630,000 for the group and £380,000 for the company.

### 25. FINANCIAL COMMITMENTS

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

	Land and buildings £	Computer equipment £	Other £
<b>Group</b>			
Operating leases which expire within one year	44,917	-	192,551
In two to five years	186,300	193,450	156,571
In over five years	1,398,993	-	-
	<u>1,630,210</u>	<u>193,450</u>	<u>349,122</u>
<b>Company</b>			
Operating leases which expire within one year	-	-	-
In two to five years	-	193,450	-
In over five years	262,220	-	-
	<u>262,220</u>	<u>193,450</u>	<u>-</u>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

### 26. EXTRACTS FROM FOLGATE INSURANCE COMPANY LIMITED FINANCIAL STATEMENTS AT 31 DECEMBER 2002

#### PROFIT AND LOSS ACCOUNT FOR THE YEAR TO 31 DECEMBER 2002: TECHNICAL ACCOUNT

	£'000	£'000
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	19,942	
Outward reinsurance premiums	(13,375)	
		6,567
Change in the gross provision for unearned premiums	28,114	
Change in the provision for unearned premiums, reinsurers' share	1,008	
		29,122
		35,689
<b>Allocated investment return, transferred from non-technical account</b>		1,951
<b>Claims incurred, net of reinsurance</b>		
Claims paid, gross amount	(34,660)	
Claims paid, reinsurers' share	701	
	(33,959)	
Change in provision for claims, gross amount	1,719	
Change in provision for claims, reinsurers' share	1,419	
	3,138	
		(30,821)
<b>Net operating expenses</b>		(18,008)
<b>Change in equalisation provision</b>		1,956
		(9,233)

#### PROFIT AND LOSS ACCOUNT FOR THE YEAR TO 31 DECEMBER 2002: NON-TECHNICAL ACCOUNT

Investment income	3,810
Investment expenses and charges	(763)
Investment return transferred to the technical account	(1,951)
Other income	2,175
<b>Loss on ordinary activities before tax</b>	<b>(5,962)</b>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

The loss on ordinary activities before tax can be reconciled to the result consolidated in the group profit and loss account for the period to 31 March 2003 as follows:

### RECONCILIATION OF THE PROFIT AND LOSS ACCOUNT TO 31 DECEMBER 2002 TO THE CONSOLIDATED RESULT

	£'000
<b>Loss on ordinary activities before tax for the period from 1 January 2002 to 31 December 2003</b>	<b>(5,962)</b>
Loss relating to the period prior to acquisition by The Folgate Partnership Limited	4,540
Profit on sale of the household portfolio of business to The Folgate Underwriting Agency Limited	(1,000)
Interest income on loans to The Folgate Partnership Limited	(464)
Group costs attributable to Folgate Insurance Company Limited for the period 1 January 2003 to 31 March 2003	(136)
	<u>(3,022)</u>

### BALANCE SHEET AS AT 31 DECEMBER 2002

ASSETS	£'000	£'000
<b>Investments</b>		
Other financial investments		35,888
<b>Reinsurers' share of technical provisions</b>		
Provision for unearned premiums	2,213	
Claims outstanding	5,380	
		<u>7,593</u>
<b>Debtors</b>		
Debtors arising out of direct insurance operations	538	
Debtors arising out of reinsurance operations	598	
Other debtors	1,922	
		<u>3,058</u>
<b>Other assets</b>		
Tangible assets	129	
Cash at bank and in hand	14,475	
		<u>14,604</u>
<b>Prepayments and accrued income</b>		
Accrued interest and rent	731	
Deferred acquisition costs	1,039	
Other prepayments and accrued income	204	
Tax recoverable	53	
		<u>2,027</u>
<b>Total assets</b>		<u><u>63,170</u></u>

# THE FOLGATE PARTNERSHIP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2003

<b>LIABILITIES</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital and reserves</b>		
Called up share capital	22,500	
Share premium account	15,814	
Profit and loss account	(17,683)	
	<hr/>	
<b>Shareholders' funds attributable to equity interests</b>		20,631
<b>Technical provisions</b>		
Provisions for unearned premiums	4,101	
Claims outstanding	30,661	
Equalisation provision	3,572	
	<hr/>	
		38,334
<b>Provisions for other risks and charges</b>		
Provisions for pensions and similar obligations	644	
Other provisions	112	
	<hr/>	
		756
<b>Creditors</b>		
Creditors arising out of direct insurance operations	859	
Creditors arising out of reinsurance operations	216	
Amounts owed to credit institutions	1,261	
Other creditors including taxation and social security	63	
	<hr/>	
		2,399
<b>Accruals and deferred income</b>		1,050
		<hr/>
<b>Total liabilities</b>		<u>63,170</u>

Unless otherwise stated below, Folgate Insurance Company Limited assets and liabilities are shown separately or under the same named headings in notes 11 and 12 to the financial statements. The exceptions are as follows:

Investments and cash at bank and in hand are disclosed as cash at bank and in hand.

Tangible assets are disclosed as fixed assets within note 9.

Other prepayments and accrued income plus £139,000 of accrued interest and rent are included in prepayments and accrued income in note 11. 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 provisions are included in other creditors and accruals.

Fair value adjustments to Folgate Insurance Company Limited assets and liabilities are detailed in note 10 to the financial statements. Other consolidation adjustments to assets and liabilities arise from the elimination of intercompany transactions.