

Davis Corporate Risks Limited

Financial statements

For the year ended 31 December 2005

Grant Thornton 



Company No. 4901317

Officers and professional advisers

Company registration number	4901317
Registered office	14 Kings Court NEWMARKET Suffolk CB8 7SG
Directors	Mr L G Davis Smart Mrs H L Davis Flynn Mr A R C Gardiner Mr K J Hancock Mr I S Richardson Mrs M L Turnbull
Secretary	Mr R W Proctor
Bankers	Barclays Bank Plc PO Box 885 Mortlock House Vision Park HISTON Cambridgeshire CB4 9DE
Auditor	Grant Thornton UK LLP Registered Auditors Chartered Accountants Holland Court The Close NORWICH NR1 4DY

Contents

Report of the directors	3 - 5
Report of the independent auditor	6 - 7
Accounting policies	8 - 11
Profit and loss account	12
Balance sheet	13
Notes to the financial statements	14 - 20

Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 December 2005.

Principal activity and business review

The principal activity of the company during the year continued to be that of general insurance broker.

The results for the year and financial position of the company are as shown in the annexed financial statements.

During a soft market in the insurance industry the company has done well to show turnover growth. Despite a higher cost base the business is performing profitably. The company, since 14 January 2005, is authorised and regulated by The Financial Services Authority.

The directors expect strong organic growth from the business and will consider growing by acquisition should an appropriate opportunity be identified.

Results and dividends

The profit for the year, after taxation, amounted to £504,826 (2004 - £557,554). Particulars of dividends paid are detailed in note 8 to the financial statements.

Directors

The directors who served the company during the year were as follows:

Mr L G Davis Smart
Mrs H L Davis Flynn
Mr A R C Gardiner
Mr K J Hancock
Mr I S Richardson
Mrs M L Turnbull

No director had any beneficial interest in the shares of the company at 1 January 2005 or 31 December 2005. The interests of the directors in the share capital of the parent undertaking, The Davis Group Plc, are shown in the financial statements of that company.

Policy on the payment of creditors

The company seeks the best possible terms from suppliers appropriate to its business and, in placing orders, gives consideration to quality, price and terms of payment which will be agreed with suppliers when the details of each transaction are settled. The company will continue to honour its contractual and other legal obligations and to pay creditors on the dates agreed in contracts and purchase orders.

At 31 December 2005 the aggregate amount owed to trade creditors, as a proportion of the aggregate amounts invoiced by suppliers to the company during the year then ended, represented an average of 21 days credit (2004 - 34 days).

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Donations

During the year the company made the following contributions:

	2005	2004
	£	£
Charitable	<u>17,300</u>	<u>15,220</u>

Auditor

Quinneys resigned as auditor on 14 June 2005 and Grant Thornton UK LLP were appointed in their place. A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to be 'L G Davis Smart', written over a horizontal line.

Mr L G Davis Smart
Director
13 March 2006

Report of the independent auditor to the member of Davis Corporate Risks Limited

We have audited the financial statements of Davis Corporate Risks Limited for the year ended 31 December 2005 which comprise the principal accounting policies, the profit and loss account, the balance sheet and notes 1 to 21. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 11.

This report is made solely to the company's member 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 member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

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

We read other information contained in the report of the directors and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

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

Report of the independent auditor to the member of Davis Corporate Risks Limited (continued)

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Grant Thornton UK LLP

NORWICH

13 March 2006

Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice).

Changes in accounting policies

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standards:

- FRS 21 (IAS 10) 'Events after the Balance Sheet date'; and
- the presentation requirements of FRS 25 (IAS 32) 'Financial Instruments: Disclosure and Presentation'.

FRS 21 (IAS 10) 'Events after the Balance Sheet date'

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements. Previously, proposed equity dividends were recorded as liabilities at the balance sheet date.

This change in accounting policy has had no impact on the results for the current year and has not resulted in a prior year adjustment for the company.

FRS 25 (IAS 32) 'Financial Instruments: Disclosure and Presentation'

The adoption of FRS 25 has resulted in a change of accounting policy in respect of the disclosure and presentation of financial instruments. The details of the new accounting policies are given in the section entitled 'Financial instruments' below.

This change in accounting policy has had no impact on the results for the current year and has not resulted in a prior year adjustment for the company.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is a wholly owned subsidiary of The Davis Group Plc and the group's consolidated financial statements include a cash flow statement.

Related parties transactions

The company has taken advantage of the exemption available under Financial Reporting Standard 8 whereby subsidiary undertakings do not have to disclose intra group transactions if 90% or more of their shares are controlled within the group.

Turnover

Turnover represents brokerage and fees which are recognised in the profit and loss account at the inception of the contract for insurance.

Where the company receives revenue which is related to the underlying underwriting profit on policies written or sold, this is only recognised in the year in which the right to the consideration is achieved and the final amount can be reliably measured.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill - 20% straight line basis

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Property - 33% straight line basis
Fixtures & Fittings - 20% - 33% straight line basis
Motor Vehicles - 25% straight line basis

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Trade and other debtors

Trade and other debtors are recognised and carried forward at invoices amounts less provisions for any doubtful debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents are included in the balance sheet at cost. Cash and cash equivalents comprise cash at bank and in hand.

Insurance broking assets and liabilities

The company acts as an agent in broking the insurable risks of its clients and generally is not liable as a principal for premiums due to underwriters or for claims payable to clients.

Notwithstanding the company's legal relationship with clients and underwriters and since in practice premium and claim monies are usually accounted for by insurance intermediaries, it has followed generally accepted accounting practice by showing cash, debtors and creditors relating to insurance business as assets and liabilities of the company itself.

Profit and loss account

	Note	2005 £	2004 £
Turnover	1	2,869,409	2,580,834
Other operating charges	2	(2,214,062)	(1,800,777)
Operating profit	3	655,347	780,057
Interest receivable		55,333	46,105
Interest payable and similar charges	6	—	(2,700)
Profit on ordinary activity before taxation		710,680	823,462
Tax on profit on ordinary activity	7	(205,854)	(265,908)
Retained profit for the financial year	19	504,826	557,554

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

Balance sheet

	Note	2005 £	2004 £
Fixed assets			
Intangible assets	9	18,756	—
Tangible assets	10	80,877	96,208
		<u>99,633</u>	<u>96,208</u>
Current assets			
Debtors	11	1,957,808	1,891,041
Cash at bank	13	891,207	1,161,960
		<u>2,849,015</u>	<u>3,053,001</u>
Creditors: amounts falling due within one year	14	<u>2,535,268</u>	<u>2,832,242</u>
Net current assets		<u>313,747</u>	<u>220,759</u>
Total assets less current liabilities		<u>413,380</u>	<u>316,967</u>
Provisions for liabilities			
Deferred taxation	12	—	8,413
Net assets		<u>413,380</u>	<u>308,554</u>
Capital and reserves			
Called-up equity share capital	18	1,000	1,000
Profit and loss account	19	412,380	307,554
Equity shareholder's funds	20	<u>413,380</u>	<u>308,554</u>

These financial statements were approved by the directors on 13 March 2006 and are signed on their behalf by:



Mr L G Davis Smart
Director



Mr I S Richardson
Director

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the company.
 An analysis of turnover is given below:

	2005 £	2004 £
United Kingdom	<u>2,869,409</u>	<u>2,580,834</u>

2 Other operating charges

	2005 £	2004 £
Administrative expenses	<u>2,214,062</u>	<u>1,800,777</u>

3 Operating profit

Operating profit is stated after charging:

	2005 £	2004 £
Amortisation of goodwill	2,603	—
Depreciation of owned fixed assets	45,941	42,982
Loss on disposal of fixed assets	503	7,576
Auditor's remuneration:		
Audit fees	9,840	9,751
Operating lease costs:		
Land and buildings	<u>76,575</u>	<u>79,508</u>

Particulars of employees

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

	2005	2004
	No	No
Account executives	41	35
Administration	12	11
	<u>53</u>	<u>46</u>

The aggregate payroll costs of the above were:

	2005	2004
	£	£
Wages and salaries	1,333,153	1,095,043
Social security costs	126,833	111,669
Other pension costs (note 15)	59,631	48,788
	<u>1,519,617</u>	<u>1,255,500</u>

Directors

Remuneration in respect of directors was as follows:

	2005	2004
	£	£
Emoluments	190,813	150,864
Value of company pension contributions to money purchase schemes	9,658	9,392
	<u>200,471</u>	<u>160,256</u>

The number of directors who accrued benefits under company pension schemes was as follows:

	2005	2004
	No	No
Money purchase schemes	<u>2</u>	<u>2</u>

Interest payable and similar charges

	2005	2004
	£	£
Interest payable to parent undertaking	<u>—</u>	<u>2,700</u>

7 Taxation on ordinary activity

(a) Analysis of charge in the year

	2005 £	2004 £
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2004 - 30%)	219,640	257,495
Total current tax	219,640	257,495
Deferred tax:		
Origination and reversal of timing differences (note 12)	(13,786)	8,413
Tax on profit on ordinary activity	205,854	265,908

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activity for the year is higher than the standard rate of corporation tax in the UK of 30% (2004 - 30%).

	2005 £	2004 £
Profit on ordinary activity before taxation	710,680	823,462
Profit on ordinary activity multiplied by the standard rate of tax in the UK of 30% - expected charge	213,204	247,039
Expenses not deductible for tax purposes	1,890	6,492
Depreciation in excess of capital allowances	4,546	5,187
Interest receivable	—	(1,223)
Total current tax (note 7(a))	219,640	257,495

8 Dividends

Dividends on equity shares

	2005 £	2004 £
Paid during the year:		
Equity dividends on ordinary shares	400,000	250,000

Intangible fixed assets

	Goodwill £
Cost	
Additions	21,359
At 31 December 2005	<u>21,359</u>
Amortisation	
Charge for the year	2,603
At 31 December 2005	<u>2,603</u>
Net book value	
At 31 December 2005	<u>18,756</u>
At 31 December 2004	<u>—</u>

Tangible fixed assets

	Leasehold Property £	Fixtures & Fittings £	Motor Vehicles £	Total £
Cost				
At 1 January 2005	3,143	159,045	38,565	200,753
Additions	—	19,653	15,865	35,518
Disposals	—	(39,177)	(25,015)	(64,192)
Transfers from group undertakings	—	12,531	19,995	32,526
At 31 December 2005	<u>3,143</u>	<u>152,052</u>	<u>49,410</u>	<u>204,605</u>
Depreciation				
At 1 January 2005	262	88,172	16,111	104,545
Charge for the year	1,048	34,120	10,773	45,941
On disposals	—	(37,240)	(15,950)	(53,190)
Transfers from group undertakings	—	8,937	17,495	26,432
At 31 December 2005	<u>1,310</u>	<u>93,989</u>	<u>28,429</u>	<u>123,728</u>
Net book value				
At 31 December 2005	<u>1,833</u>	<u>58,063</u>	<u>20,981</u>	<u>80,877</u>
At 31 December 2004	<u>2,881</u>	<u>70,873</u>	<u>22,454</u>	<u>96,208</u>

Debtors

	2005 £	2004 £
Trade debtors	1,824,579	1,752,096
Amounts owed by group undertakings	1,340	—
Other debtors	84,490	100,843
Prepayments and accrued income	42,026	38,102
Deferred taxation (note 12)	5,373	—
	<u>1,957,808</u>	<u>1,891,041</u>

Deferred taxation

The deferred tax included in the balance sheet is as follows:

	2005 £	2004 £
Included in debtors (note 11)	5,373	—
Included in provisions	—	(8,413)
	<u>5,373</u>	<u>(8,413)</u>

The movement in the deferred taxation account during the year was:

	2005 £	2004 £
Balance brought forward	(8,413)	—
Profit and loss account movement arising during the year	13,786	(8,413)
Balance carried forward	<u>5,373</u>	<u>(8,413)</u>

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of:

	2005 £	2004 £
Excess of taxation allowances over depreciation on fixed assets	873	(8,413)
Other short term timing differences	4,500	—
Balance carried forward	<u>5,373</u>	<u>(8,413)</u>

Insurance broking cash

Monies held in client money bank accounts and forming part of the cash balance reported in the balance sheet at 31 December 2005 amounted to £723,280 (2004 - £1,128,957).

14 Creditors: amounts falling due within one year

	2005	2004
	£	£
Trade creditors	2,192,330	2,523,779
Amounts owed to group undertakings	33,253	39,095
Corporation tax	100,640	118,495
Other taxation and social security	45,278	39,280
Other creditors	50,760	25,380
Accruals and deferred income	113,007	86,213
	<u>2,535,268</u>	<u>2,832,242</u>

Included in trade creditors is an amount of £2,189,056 (2004 - £2,476,591) in relation to insurance company creditors.

15 Pensions

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge for the year represents contributions payable by the company to the fund and amounted to £59,631 (2004 - £48,788). At 31 December 2005 there were no outstanding or prepaid pension contributions (2004 - £Nil).

16 Commitments under operating leases

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below.

	Land & buildings	
	2005	2004
	£	£
Operating leases which expire:		
Within 1 year	78,000	70,500
Within 2 to 5 years	10,575	10,575
	<u>88,575</u>	<u>81,075</u>

17 Related party transactions

During the year charitable donations of £15,000 (2004 - £15,000) were payable to The Davis Group Charitable Trust. At 31 December 2005 the full amount of £15,000 (2004 - £15,000) was an outstanding creditor to this body.

The company sold a vehicle to Mrs H L Davis Flynn (director) during the year for the sum of £2,500, being it's market value at the date of sale.

18 Share capital

Authorised share capital:

	2005 £	2004 £
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Allotted, called up and fully paid:

	2005 No	£	2004 No	£
Equity shares				
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

19 Profit and loss account

	2005 £	2004 £
Balance brought forward	307,554	—
Retained profit for the financial year	504,826	557,554
Equity dividends paid	(400,000)	(250,000)
Balance carried forward	<u>412,380</u>	<u>307,554</u>

20 Reconciliation of movements in equity shareholder's funds

	2005 £	2004 £
Profit for the financial year	504,826	557,554
New ordinary share capital subscribed	—	1,000
Equity dividends paid	(400,000)	(250,000)
Net addition to shareholder's funds	104,826	308,554
Opening shareholder's funds	308,554	—
Closing shareholder's funds	<u>413,380</u>	<u>308,554</u>

21 Ultimate parent undertaking

The parent undertaking of the company is The Davis Group Plc, a company incorporated in England and Wales. The Davis Group Plc owns 100% of the issued share capital of the company. The Davis Group Plc prepares financial statements in which the results of Davis Corporate Risks Limited are consolidated.

The ultimate controlling party is Mr L G Davis Smart, by virtue of his controlling shareholding in the issued share capital of The Davis Group Plc.