

The Medical Defence Union Limited

Company Number 21708

**Annual Report and Accounts
Year Ended 31 December 2000**



Report of the Board of Management

The Directors present their report and the financial statements for the year ended 31 December 2000.

Activities

The MDU's activities include the discretionary provision, in accordance with the *Memorandum and Articles of Association*, of indemnity and advisory services for its members.

The MDU provides advice and assistance to governments and other bodies relating to risk management and the handling of indemnity claims.

Review of business

Members' attention is drawn to the Report of the Chairman, and the Operating and financial review, in which the salient features of the year are highlighted. The financial statements, on pages 6 to 17, set out the financial results of the year's activities.

The MDU continues to set subscriptions which the directors, on the advice of the consulting actuaries, consider sufficient to meet overheads and foreseeable discretionary indemnity payments and legal costs.

In May 2000 The Medical Defence Union Ltd formed an alliance with Zurich Insurance Company, part of Zurich Financial Services.

Disabled employees

The MDU gives full consideration to applications for employment from disabled people where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled it is the MDU's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion where possible.

Directors

The following served as directors in 2000:

J C Smith*# (Chairman)

Hedley E Berry

Sir John Caines*#

E M Cooke

R D Corley*#

C C Evans*

M M Gallivan

R W Hiles

Baroness Hooper*#

J G Kennedy

D E Markham*#

M R Rendle*#

M T Saunders*

C M Tomkins

P R Williams

J P de Blocq van Kuffeler*# (appointed 22.05.2001)

M J Gifford (resigned 11.01.2001)

R D C Hubbard*# (resigned 31.12.2000)

W S L La Frenais (retired 14.09.2000)

* members of the Remuneration Committee

members of the Audit Committee

The following director, having been appointed since the last Annual General Meeting, stands for election at the 2001 Annual General Meeting:

Mr J P de Blocq van Kuffeler, MA FCA was appointed to the MDU Board of Management on 22 May 2001. Mr van Kuffeler is Executive Chairman of Provident Financial plc, international providers of simple financial services. He joined Provident Financial in 1991 as Chief Executive and was appointed Executive Chairman in 1997. He was formerly Group Chief Executive of Brown Shipley Holdings plc. He is Chairman of the Finsbury Smaller Quoted Companies Trust plc. He is also a non-executive director of The Fleming Technology Trust plc.

In accordance with the Articles of Association the following directors are due to retire by rotation and, being eligible, offer themselves for re-election at the next Annual General Meeting:

Hedley E Berry (having been recommended by the Board of Management under Article 53(a))

M T Saunders (having been recommended by the Board of Management under Article 53(b)(i))

Baroness Hooper, M R Rendle and J C Smith retire by rotation and do not offer themselves for re-election.

Corporate governance

The Board of the MDU supports the principles expressed in the Combined Code. The Board complies with the bulk of the provisions of the code where they are appropriate to the MDU's structure as a company limited by guarantee, there being no shareholders and no payment of dividends.

The Board has a schedule of matters reserved to itself and has a procedure for directors to obtain independent advice.

The Board has an audit committee (chaired by Mr R D Corley, a non-executive director) which consists of the Chairman of the Board, the Vice-Chairman of the Board and all the non-executive members of the Board who are not also members of the MDU. The committee meets not less than twice a year. The Board also has nomination and remuneration committees.

The financial statements are prepared on a going concern basis. In deciding to adopt the going concern basis the directors have reviewed the group's business plans and budgets.

The directors acknowledge that they are responsible for the group's system of internal control. Control is exercised through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. Information is regularly provided at all levels and compared with budgeted targets which are reviewed on a quarterly basis. The Board considers regular reports on the risks inherent in the business.

The Board, through the audit committee, has reviewed the effectiveness of the internal control environment of the group. The internal and external auditors attend meetings of the audit committee.

Statement of directors' responsibilities

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 the

group and of the surplus or deficit 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, subject to any material departures disclosed and explained in the financial statements;
- ☐ prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PKF, chartered accountants, have signified their willingness to continue in office. A resolution to reappoint them will be proposed at the Annual General Meeting.

By order of the Board of Management.



N J Bowman

Company Secretary
26th June 2001

Consolidated Income and Expenditure Account

for the year ended 31 December 2000

		2000		1999	
	Notes	£'000	£'000	£'000	£'000
Members' subscriptions			100,612		95,282
Investment income	2		6,137		7,096
Realised gains and losses from disposal of investments			(1,194)		2,453
Total mutual income			105,555		104,831
Less:					
Medical and dental advisory services		12,255		10,127	
Indemnity, legal, reinsurance and insurance costs	3	77,601		100,934	
Administrative costs		8,230		6,818	
Exceptional item - Reorganisation Costs		2,527		1,249	
Finance costs	1(e)	12,141		11,925	
Total mutual expenditure			112,754		131,053
(Deficit) from mutual activities			(7,199)		(26,222)
Income from non-mutual activities			7,045		-
Less: share of joint ventures turnover			(7,045)		-
Share of operating profit in joint venture			42		-
Exceptional item before taxation	4(a)		527		-
(Deficit) before taxation	4(b)		(6,630)		(26,222)
Taxation	5(a)		312		1,871
(Deficit) after taxation transferred to accumulated fund	11		(6,942)		(28,093)

All activities relate to continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 December 2000

	2000	1999
	£'000	£'000
(Deficit) after taxation excluding share of profits of joint venture	(6,984)	(28,093)
Share of joint venture's profit for the year	42	-
Unrealised (deficit)/surplus on revaluation of investments	(6,822)	40,085
Unrealised surplus on revaluation of properties	-	2,808
Taxation charge on investment gains (5b)	(3,940)	(1,730)
Deferred taxation on revaluation of property	-	(382)
Total recognised gains and losses for the year	(17,704)	12,688
Prior year adjustment	-	(276,195)
Total recognised gains and losses since the last annual report	(17,704)	(263,507)

Note of Historical Cost Gains and Losses

for the year ended 31 December 2000

	2000	1999
	£'000	£'000
Reported (deficit) before taxation	(6,630)	(26,222)
Realisation of investment gains of previous years	16,713	12,945
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	62	37
Historical cost surplus/(deficit) before taxation	10,145	(13,240)
Historical cost surplus/(deficit) after taxation	9,833	(15,111)

Consolidated and Company Balance Sheets

for the year ended 31 December 2000

	Notes	2000		1999	
		Group £'000	Company £'000	Group £'000	Company £'000
Fixed assets					
Tangible assets	6	5,009	5,009	10,423	10,423
Investments	7	237,597	144,557	289,793	162,139
Investment in joint venture					
Share of gross assets		5,522	-	-	-
Share of gross liabilities		(4,277)	-	-	-
		1,245	-	-	-
		243,851	149,566	300,216	172,562
Current assets					
Debtors	8	58,769	134,443	34,432	139,520
Deposits at banks		8,687	8,588	8,217	8,116
		67,456	143,031	42,649	147,636
Creditors - amounts falling due within one year	9	12,316	11,748	4,637	3,346
Net current assets		55,140	131,283	38,012	144,290
Total - fixed assets and net current assets		298,991	280,849	338,228	316,852
Provisions					
Indemnity	10(a)	298,622	280,480	318,992	315,320
Other provisions	10(b)	369	369	1,532	1,532
Total provisions		298,991	280,849	320,524	316,852
Reserves					
Property revaluation reserve		1,096	1,096	4,933	4,933
Investment revaluation reserve		33,178	25,296	56,713	45,469
Accumulated fund		(34,274)	(26,392)	(43,942)	(50,402)
Total reserves	11	-	-	17,704	-
Total - provisions and reserves		298,991	280,849	338,228	316,852

Approved by the Board of Management

MT Saunders CHIEF EXECUTIVE

J C Smith CHAIRMAN

Consolidated Cash Flow Statement

for the year ended 31 December 2000

		2000		1999	
	Notes	£'000	£'000	£'000	£'000
Net cash (outflow)/inflow from operating activities	13(a)		(49,091)		(18,692)
Returns on investments					
Interest received		963		588	
Investment income		4,820		6,093	
Net cash inflow from returns on investments			5,783		6,681
Corporation tax paid			(3,735)		(5,549)
Capital expenditure and financial investment					
Purchases of fixed assets		(2,282)		(1,058)	
Sales of fixed assets		5,555		87	
Purchases of investments		(80,945)		(159,081)	
Sales of investments		122,566		173,851	
Net cash inflow from capital expenditure and financial investment			44,894		13,799
Acquisitions and disposals					
Sale of subsidiary undertaking		-		921	
Deposits at bank disposed of with subsidiary undertaking		-		(5,411)	
			-		(4,490)
(Decrease) in cash	13(b)		(2,149)		(8,251)

Notes to the Financial Statements

for the year ended 31 December 2000

1. Accounting Policies

(a) Basis of accounting and format of accounts

The Group accounts have been prepared under the historical cost convention, as modified by the revaluation of investments and leasehold properties, and in accordance with the Companies Act 1985 and applicable accounting standards. As permitted by the Companies Act 1985, the accounts formats have been adapted, as necessary, to give a true and fair view of the state of affairs of the Group.

The prior year adjustment in 1999 represented a change in the Group's accounting policy relating to accounting for costs of indemnity claims in line with Financial Reporting Standard 12 and Financial Reporting Standard 16.

(b) Basis of consolidation

The consolidated income and expenditure account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December. No income and expenditure account is presented for The Medical Defence Union Limited as permitted by section 230 of the Companies Act 1985.

MDU Services Limited in which the Group holds an interest on a long term basis and is jointly controlled by the Group and Zurich Insurance Company under a contractual agreement is treated as a joint venture. In the group accounts, the joint venture is accounted for using the gross equity method.

(c) Members' subscriptions

Subscription income comprises subscriptions due and received by the Group before the balance sheet date without apportionment. No geographical analysis of subscriptions is provided

as in the opinion of the Board it is not in the interests of the Group to disclose this information.

(d) Indemnity, legal, reinsurance and insurance costs

Expenditure on indemnity payments including the movement on the indemnity provision between the beginning and end of the year and legal charges covers the aggregate of all indemnity settlements, and legal services provided for members, together with insurance premiums. These costs include plaintiffs' costs, payments on account, legal costs, representation at service committee appeals, at hospital enquiries and at the General Medical and Dental Councils, and legal assistance to members.

(e) Indemnity provision

Provision is made on the advice of the consulting actuaries for the outstanding cost of settlement and related claimants costs for indemnity cases from all reported incidents notified as at the balance sheet date up to the amount of net book assets. The provision has been discounted to allow for future investment returns in accordance with Financial Reporting Standard 12.

The estimated value of this provision is stated before estimated recoveries from insurers, which are disclosed separately as debtors and calculated by the consulting actuaries. The provision will be paid over an extended period and subject to agreement by all parties. The movement on the provision separately identifies the unwinding of the discount which is disclosed as a finance cost in the income and expenditure account.

No provision is made for claims that may arise from incidents incurred before the balance sheet date but not reported to the Group at that date or for defendant legal costs.

Notes to the Financial Statements

for the year ended 31 December 2000

(f) Non-mutual activities

Income from non-mutual activities and share of joint venture turnover represents the Group's share of the turnover of MDU Services Limited comprising expenses recharged to the Medical Defence Union for the period ended 31 December 2000.

Share of operating profit/(loss) in joint venture represents the Group's share of the profit/(loss) after tax of MDU Services Limited for the period ended 31 December 2000.

(g) Tangible fixed assets and depreciation

The cost/revalued amounts of tangible fixed assets are written off evenly over their estimated useful economic lives. Reviews are made periodically of the estimated remaining lives of individual assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

1. Long leasehold properties:

Long leasehold properties were valued on an existing use basis in 1999. On adoption of FRS15, the Group has followed the transitional provisions to retain the book value of long leasehold properties, but not to adopt a policy of revaluation in the future.

The cost/revalued amounts of long leasehold properties are written off over 50 years.

Refurbishment costs on leasehold properties are written off over the shorter of the length of the lease and 10 years.

2. Office equipment:

20-100 per cent per annum on cost

3. Motor vehicles:

25 per cent per annum on cost

(h) Investments

Listed and unlisted investments held at the balance sheet date are stated at closing valuation on that date. Movements on revaluation are accounted for through the investment revaluation reserve.

On disposal the proceeds are compared with the carrying value and the resulting profit or loss credited or charged to the income and expenditure account.

Investment income is accounted for on the basis of cash received. In the company financial statements investments in subsidiary undertakings are carried at cost.

(i) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the balance sheet date or the appropriate forward contract rate. All differences are taken to the income and expenditure account.

(j) Deferred taxation

No provision is made for potential tax liabilities on unrealised gains arising from the revaluation of investments and leasehold properties unless the realisation is anticipated and a liability can be foreseen.

(k) Pension costs

The pension costs are charged in the income and expenditure account so as to spread the regular cost of pensions over the working lives of employees who are scheme members. Variations from the regular cost are allocated over the average remaining service lives of employees.

Notes to the Financial Statements

for the year ended 31 December 2000

	2000	1999
	£'000	£'000
2. Investment Income		
investment income	5,174	6,508
loan and bank interest	963	588
	6,137	7,096
	£'000	£'000
3. Indemnity, Legal, Reinsurance and Insurance Costs		
Indemnity	29,766	72,715
Reinsurance recoveries	(22,657)	(14,890)
Legal costs	14,912	19,290
Reinsurance and insurance costs	55,580	23,819
	77,601	100,934
	£'000	£'000
4. (a) Exceptional Item Before Taxation		
Profit on disposal of property in London	527	-
	£'000	£'000
4. (b) (Deficit) Before Taxation		
(Deficit) before taxation has been stated after charging/(crediting) the following:		
Depreciation (Note 6)	652	1,299
(Profit)/Loss on disposal of fixed assets (including exceptional items)	(578)	149
Auditors' remuneration – as auditors	89	67
– for non-audit work	268	180
Operating lease rentals - land and buildings	66	-
	£'000	£'000
4. (c) Directors' Remuneration:		
Fees	345	291
Other emoluments (including pension contributions)	397	605
	742	896
Emoluments (excluding pension contributions) of the highest paid director	140	180
At 31 December 2000 the accrued pension rights of the highest paid director were £61,778 (1999: £56,023). Retirement benefits are accruing to four directors under a defined benefit scheme.		
4. (d) Staff costs		
Staff costs charged in arriving at the (deficit) for the year before taxation are:		
	£'000	£'000
Salaries	2,802	7,926
Social security costs	220	625
Other pension and related costs	399	1,165
	3,421	9,716
	Number	Number
Average number of employees in the year	81	237

On 2 May 2000, all employees of The Medical Defence Union Limited were transferred to MDU Services Ltd, a joint venture company and accordingly the staff costs set out above for the year end 31 December 2000 represent those for the period ended 30 April 2000.

Notes to the Financial Statements

for the year ended 31 December 2000

	2000	1999
5. Taxation	£'000	£'000
5. (a) Income and Expenditure Account		
Corporation tax for the year at 30 per cent (1999: 30.25 per cent) on income and capital gains from investments	869	2,677
Adjustment in respect of previous years	(175)	(806)
Deferred Taxation	(382)	-
	312	1,871

5. (b) Statement of Total Recognised Gains and Losses		
Corporation tax for the year at 30 per cent (1999: 30.25 per cent) on capital gains from investments	3,940	1,730

The potential tax liability on unrealised gains arising on the revaluation of investments is estimated to be £6,800,000 (1999: £14,670,000) for the Group and £6,800,000 (1999: £12,150,000) for the Company.

6. Fixed Assets – Tangible Group and Company

	Leasehold Properties	Motor Vehicles	Office Equipment	Total
	£'000	£'000	£'000	£'000
Cost/valuation				
At 1 January 2000	8,500	910	7,540	16,950
Additions	1,711	107	464	2,282
Disposals	(5,000)	(1,017)	(8,004)	(14,021)
At 31 December 2000	5,211	-	-	5,211
Cost	1,711	-	-	1,711
Valuation	3,500	-	-	3,500
	5,211	-	-	5,211
Depreciation				
At 1 January 2000	-	419	6,108	6,527
Provided in year	271	71	310	652
Disposals	(69)	(490)	(6,418)	(6,977)
At 31 December 2000	202	-	-	202
Net book amount				
At 31 December 2000	5,009	-	-	5,009
At 31 December 1999	8,500	491	1,432	10,423

Leasehold properties were valued by professional advisors in 1999, on an existing use basis. On adoption of FRS15, the group has followed the transitional provisions to retain the book value of the leasehold properties, but not adopt a policy of revaluation in the future. On a historic cost basis, leasehold properties at valuation would have been included as follows:

	2000	1999
	£'000	£'000
Cost	4,400	7,397
Depreciation	2,084	2,452
	2,316	4,945
Leasehold properties at net book value comprise:		
Properties with over 50 years to run	5,009	8,500

Notes to the Financial Statements

for the year ended 31 December 2000

7. Fixed Assets – Investments

Group	Listed Investments	Unlisted Investments	Cash held for Investment	Total
At 1 January 2000:	£'000	£'000	£'000	£'000
At valuation	283,288	132	-	283,420
At cost	-	-	6,373	6,373
	283,288	132	6,373	289,793
Additions at cost	81,042	-	1,613	82,655
Disposals	(123,760)	(37)	(4,232)	(128,029)
Revaluation movement (Note 11)	(6,803)	(19)	-	(6,822)
At 31 December 2000	233,767	76	3,754	237,597

Company	Shares in subsidiary undertakings	Joint Venture	Listed Investments	Unlisted Investments	Cash held for Investment	Total
At 1 January 2000:	£'000	£'000	£'000	£'000	£'000	£'000
At valuation	-	-	155,205	132	-	155,337
At cost	5,000	-	-	-	1,802	6,802
	5,000	-	155,205	132	1,802	162,139
Additions at cost	-	2,357	36,461	-	1,722	40,540
Disposals	-	-	(50,597)	(37)	-	(50,634)
Revaluation movement (Note 11)	-	-	(7,649)	(19)	-	(7,488)
At 31 December 2000	5,000	2,357	133,600	76	3,524	144,557

Listed and unlisted investments are stated at valuation. Cash held for investment and investments in subsidiary undertakings are stated at cost. The listed investments are all listed on recognised stock exchanges. On an historic cost basis, listed investments would have been included as follows:

	2000		1999	
	Group £'000	Company £'000	Group £'000	Company £'000
Listed investments	200,612	108,327	226,788	109,841
Unlisted investments	54	54	78	78
	200,666	108,381	226,866	109,919

The company holds the entire issued ordinary share capital of the following subsidiaries which principally affect the figures shown in the company's accounts: MDU Insurance Limited, an insurance company, incorporated in Guernsey; MDU Investments Limited, an investment company, incorporated in England.

The Directors of the company consider that disclosure of dormant subsidiary undertakings would result in a statement of excessive length and have therefore, as permitted under Schedule 5 of The Companies Act 1985, dispensed with the requirement.

The investment in the joint venture represents the company's interest in 75% of the ordinary shares and 51% of the voting shares of MDU Services Limited. This company was incorporated as a limited liability company in England and as from 2 May 2000 certain aspects of the discretionary cover provided by The Medical Defence Union Limited are being operated by MDU Services Limited on an agency basis. The other party to the joint venture is Zurich Insurance Company, which has provided additional

Notes to the Financial Statements

for the year ended 31 December 2000

7. Fixed Assets - Investments (continued)

reinsurance to the MDU Group. The company's interest comprises 100% of the A and B ordinary shares and F participating preference shares of the MDU Services Ltd. The group balance sheet includes the Group's interest in the joint venture at its share of the gross assets less its share of the gross liabilities.

		2000		1999	
		Group	Company	Group	Company
		£'000	£'000	£'000	£'000
8. Debtors					
Subscriptions in transit	145	145	576	576	
Amounts owed by subsidiary undertakings	-	4,760	-	29,647	
Amounts owed by joint venture	6,317	6,317	-	-	
Other debtors	158	158	542	542	
Prepayments and accrued income	2,587	2,585	1,741	1,733	
Reinsurance and Insurance recoveries	49,562	120,478	31,573	107,022	
	58,769	134,443	34,432	139,520	

Amounts falling due after more than one year included above are:

Reinsurance and insurance recoveries	44,686	107,154	25,723	95,096
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		2000		1999	
		Group	Company	Group	Company
		£'000	£'000	£'000	£'000
9. Creditors					
Falling due within one year:					
Administrative creditors	9,493	9,246	2,187	2,011	
Taxation and social security	2,823	2,502	2,450	1,135	
	12,316	11,748	4,637	3,346	

		Group	Company
		£'000	£'000
10. Provisions			
10.(a) Indemnity Provisions			
At 1 January 2000		318,992	315,320
Payments in the year		(62,277)	(62,277)
Finance costs		12,141	7,940
Income and Expenditure Account (note 3)		29,766	19,497
At 31 December 2000		298,622	280,480

		Deferred	Reorganisation	Total
		Taxation	Costs	
		£'000	£'000	£'000
10.(b) Other Provisions				
Group and Company				
At 1 January 2000		382	1,150	1,532
Utilised in the year		(382)	(1,150)	(1,532)
Income & Expenditure Account		-	369	369
At 31 December 2000		-	369	369

Notes to the Financial Statements

for the year ended 31 December 2000

11. Reserves

Group	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 2000	4,933	56,713	(43,942)	17,704
Movement on revaluation of investments (Note 7)	-	(6,822)	-	(6,822)
Disposal of leasehold properties	(3,837)	-	3,837	-
Taxation charge on investment gains	-	-	(3,940)	(3,940)
Transfer of realised gains	-	(16,713)	16,713	-
Excess of expenditure over income for the year	-	-	(6,942)	(6,942)
At 31 December 2000	1,096	33,178	(34,274)	-

Company	Property Revaluation Reserve	Investment Revaluation Reserve	Accumulated Fund	Total
	£'000	£'000	£'000	£'000
At 1 January 2000	4,933	45,469	(50,402)	-
Movement on revaluation of investments (Note 7)	-	(7,488)	-	(7,488)
Disposal of leasehold properties	(3,837)	-	3,837	-
Taxation charge on investment gains	-	-	(3,559)	(3,559)
Transfer of realised gains	-	(12,685)	12,685	-
Excess of income over expenditure for the year	-	-	11,047	11,047
At 31 December 2000	1,096	25,296	(26,392)	-

12. Pension Costs

Until 2 May 2000 the MDU provided a defined benefit pension scheme for its employees, the assets of which are held under trust separately from those of the MDU. Pension costs are assessed on the advice of an independent qualified actuary using the projected unit method. The assumptions which have the most significant effect on the pension cost are that the rate of return on investments will average 5.8 per cent per annum before retirement and 4.8 per cent per annum after retirement, that salary increases will average 4 per cent per annum, plus an allowance for promotional increases and that present and future pensions will increase at 2.8 per cent per annum. The funding of the scheme is based on regular triennial actuarial valuations. The most recent actuarial valuation was as at 1 April 2000 when the market value of the scheme's assets was £38.3m. This showed that the actuarial value of the assets represented 111 per cent of the value of the benefits, which had accrued to members, after allowing for future increases in salaries. The pension cost for 2000 was £399,000 (1999: £1,165,000). On 2 May 2000 the fund and the obligations under the fund were transferred to MDU Services Ltd, a joint venture company.

Notes to the Financial Statements

for the year ended 31 December 2000

13. Notes to the Cash Flow Statement

	2000 £'000	1999 £'000
13.(a) Reconciliation of (deficit) before taxation to net cash (outflow) from operating activities		
(Deficit) before taxation	(6,630)	(26,222)
Provision against investment	1,154	-
Share of operating profit in joint venture	(42)	-
Investment income	(6,137)	(7,096)
Realised (gains) from disposal of investments	1,194	(2,453)
(Profit)/Loss on disposal of fixed assets	(578)	149
Depreciation	652	1,299
(Increase) in debtors	(26,637)	(9,004)
Increase in creditors	7,084	5,576
(Decrease)/Increase in provisions	(19,151)	19,059
Net cash (outflow) from operating activities	(49,091)	(18,692)

13.(b) Analysis of net funds

	At 1 January 2000 £'000	Cash Flows £'000	At 31 December 2000 £'000
Cash held for investment	6,373	(2,619)	3,754
Deposits at bank	8,217	470	8,687
	14,590	(2,149)	12,441

14. Capital Commitments

	2000 £'000	1999 £'000
Capital expenditure contracted for but not provided for in these accounts for Group and Company	-	18

15. Financial Commitments

	Group and Company Land and Buildings 2000 £'000	1999 £'000
Annual commitments in respect of non cancellable operating leases are as follows:		
Operating Leases which expire:		
After five years	965	-

16. Members' Liability

The Medical Defence Union Ltd is a company limited by guarantee not exceeding £1 per member.

17. Related Party Transactions


The Group has taken advantage of the exemptions available in respect of its wholly owned subsidiary undertakings and the disclosure of related party transactions within the group and balances eliminated on consolidation.

During the year the group entered into transactions, in the ordinary course of business with MDU Services Ltd, a joint venture company in which the group has an interest in 75% of the ordinary shares and 51% of the voting shares. The trading balance outstanding at 31 December is disclosed in note 8 to these accounts. MDU Services Ltd collected subscriptions on behalf of the Groups UK members of £54,140,000 and overheads and other costs totalling £13,939,000 were recharged to the group during the year.

Notice is hereby given that the

Annual General Meeting of The Medical Defence Union Limited

(A company limited by guarantee) will be held at
230 Blackfriars Road, London, SE1 8PJ
on Tuesday 18 September 2001 at 2pm
for the following purposes:

	Resolution No.	
To receive reports of the Board of Management and the auditors and the financial statements for the year ended 31 December 2000.	1	R W Hiles MB ChB FRCS FRCSEd Sir David Hull MB ChB FRCP G J Jarvis MA(Oxon) FRCS FRCOG J G Kennedy BSc MDS MPhil PhD FDS FFD W S L La Frenais MB ChB DOBstRCOG
To elect J P de Blocq van Kuffeler who is due to retire under Article 56:	2	I Z MacKenzie MA MD FRCOG DSc D E Markham MB ChB FRCS
To elect members of the Board of Management appointed under Article 56, recommended under Article 53(b)(i) or nominated under Article 53(b)(ii) after the date of the notice for the 2001 Annual General Meeting.	3	P J Mulligan MB ChB FRCS FRCSGlas G Neil-Dwyer MB BS FRCS(Edin) FRCS(Lon) MS T O'Dowd MA MB FRCGP C O'Herlihy MD FRCP FRCOG FRANZCOG O A Oyeboode MBBS MD PhD FRCPsych R K Prasad MB MS FRCSGlas MRCGP P D Robinson PhD MB BS BDS FDSRCS(Eng) R C G Russell MS FRCS
To re-elect the following members of the Board of Management, who are retiring by rotation under Article 51:		Sir Patrick Holmes Sellors KCVO MA BM BCh FRCS
Hedley E Berry (having been recommended by the Board of Management under Article 53(a))	4	J P Shepherd BDS MSc PhD FDSRCS G Strube MB BS MRCS LRCP DCH
M T Saunders (having been recommended by the Board of Management under Article 53(b)(i))	5	E M Symonds MD FRCOG FFPHM FACOG(Hon) FRANZCOG(Hon) C Thompson MBBS BSc MPhil MD AFBPsS FRCPsych FRCP L Turner-Stokes MA MB BS DM FRCP ARCM R H Vickers MA BM BCh FRCS T J Walley MD FRCP FRCPi P R Williams MA MB BChirCamb MRCGP J S Wyatt FRCP FRCPC
Baroness Hooper, M R Rendle and J C Smith retire by rotation and do not offer themselves for re-election.		
To invite the Board of Management to appoint as members of the Council of the MDU for 2001-2002 the following:	6	
A A J Adgey MD MB BCh BAO FRCP A R Aitkenhead BSc MD FRCA P Armstrong FRCP D F Badenoch DM MCh FEBU FRCS (Urol) J E Banatvala CBE MA MD FRCP FRCPath DCH DPH P R F Bell MD FRCS FRCSEd Hedley E Berry MB BS FRCS S J Bewley MD FRCOG M M Brown MD FRCP E M Cooke OBE BSc MD FRCPath FRCP HonDipHIC J Cunningham MDS FDSRCS(Ed) C C Evans MD FRCP FRCPi A Fitzgerald O'Connor MB ChB FRCS		
		To re-appoint Messrs PKF as auditors and to authorise the Board of Management to determine the remuneration of the auditors.
		7
		By Order of the Board of Management
		
		N J Bowman Company Secretary 26th June 2001
		REGISTERED OFFICE: 230 Blackfriars Road London SE1 8PJ

Notes

- (1) Every member is entitled to attend and vote or may appoint a proxy who must be a member of the MDU. The proxy form is enclosed with this Annual Report. To be effective it must be deposited at the registered office not later than 2 pm on 16 September 2001.
- (2) Mr J P de Blocq van Kuffeler, MA FCA is Executive Chairman of Provident Financial plc, international providers of simple financial services. He joined Provident Financial in 1991 as Chief Executive and was appointed Executive Chairman in 1997. He was formerly Group Chief Executive of Brown Shipley Holdings plc. He is Chairman of the Finsbury Smaller Quoted Companies Trust plc. He is also a non-executive director of The Fleming Technology Trust plc.
- (3) Mr Hedley E Berry MB BS FRCS, was appointed to The MDU Board of Management in 1992. He is a consultant surgeon in London and has been an MDU Council member since 1982 and Deputy Chairman of the Cases Committee since 1997.
- (4) Dr M T Saunders MB BS MRCS LRCP DOBstRCOG, formerly a General Practitioner, was appointed to the MDU Staff in 1986. He became General Manager, Professional Services and a member of the Board in 1991, and was appointed Chief Executive in June 1995.

Independent Auditors' Report to the Members of the Medical Defence Union Limited

We have audited the financial statements of The Medical Defence Union Limited for the year ended 31 December 2000 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of directors' responsibilities contained within the Report of the Board of Management.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and United Kingdom 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 to you if, in our opinion, the Report of the Board of Management, the Operating and Financial Review and the Report of the Chairman are 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 Report of the Board of Management, the Operating and Financial Review and the Report of the Chairman and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group and Company's affairs as at 31 December 2000 and the Group deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PKF

PKF

LONDON
REGISTERED AUDITORS

26th June 2001