

Towergate Marine Underwriting Limited

**Directors' report and financial statements
for the year ended 31 December 2003
Registered number 2646688**



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activity and business review

The profit and loss account for the year is set out on page 5.

During the year Norwich Union agreed that Company would administer its Yacht and Pleasurecraft business for them. In addition during a 12 month period transfer all its Branch business and delegated authority business to the Company.

On 31 December 2003 the business of the company together with its assets and liabilities were sold to Towergate Underwriting Group Limited a fellow subsidiary undertaking within the Towergate Underwriting Limited Group. The company therefore ceased to trade on that date. The consideration receivable comprised the sum of the book value of tangible assets and liabilities and the market value of goodwill, as estimated by the directors based on advice from the Group's investment banking advisors.

Prior to 31 December 2003 the principal activity of the company was that of an insurance broker.

Dividend

A final dividend of £8,606,381 was paid during the year (2002: £nil).

Directors and directors' interests

The directors who held office during the year were as follows:

PG Cullum

PF Dyer

A Proverbs

NJ Crocker (resigned 27 February 2004)

ARM Harris

M Cardus

The directors who held office at the end of the financial year had the following interests in the shares of group companies according to the register of directors' interests:

	Towergate Underwriting Limited				Towergate Marine Underwriting Limited	
	Ordinary Shares £1		Preference Shares £1		Ordinary "B" Shares £1	
	31 December 2003	31 December 2002	31 2003	31 December 2002	31 December 2003	31 December 2002
PG Cullum	35,550	35,550	14,725	14,725	-	-
PF Dyer	6,000	6,000	129,500	129,500	-	-
A Proverbs	5,000	5,000	40,500	40,500	-	-
NJ Crocker	200	200	1,900	1,900	-	-
ARM Harris	197	-	-	-	-	1,875

Directors' report *(continued)*

No directors have been granted share options in the shares of the Company or other group companies.

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

Political and charitable contributions

The company made no political or charitable contributions during the year (2002: £nil).

Auditors

In accordance with Sections 379A and 386 of the Companies Act 1985, the Company has dispensed with the resolution to appoint auditors annually.

By order of the board



PG Cullum
Director

24 June 2004

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 of the profit or loss 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 the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Report of the independent auditors to the members of Towergate Marine Underwriting Limited

We have audited the financial statements on pages 5 to 18.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

We conducted our audit in accordance with 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 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 Company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Re

KPMG Audit Plc
*Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB*

2 August 2004

**Profit and loss account
for the year ended 31 December 2003**

	<i>Note</i>	2003 £	Restated 2002 £
Turnover – discontinued operations	2	2,077,975	1,663,367
Amortisation of goodwill		(10,419)	(10,419)
Administrative expenses		(1,462,025)	(1,341,324)
Other operating income		117,384	40,728
		<hr/>	<hr/>
Operating profit – discontinued operations		722,915	352,352
Profit on disposal of discontinued operations		7,209,322	-
Other interest receivable and similar income		122,599	91,642
Interest payable and similar charges	6	(600)	(81)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3	8,054,236	443,913
Tax on profit on ordinary activities	7	(107,108)	(265,677)
		<hr/>	<hr/>
Profit for the financial year		7,947,128	178,236
Dividends	8	(8,606,381)	-
		<hr/>	<hr/>
Retained(loss)/ profit for the financial year		(659,253)	178,236
		<hr/>	<hr/>

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

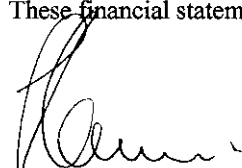
The notes on pages 8 to 18 form part of these financial statements.

**Balance sheet
at 31 December 2003**

	<i>Note</i>	2003		Restated 2002	Restated 2002
		£	£	£	£
Fixed assets					
Intangible assets	9	-		154,255	
Tangible assets	10	-		31,432	
Investments	11	-		13,485	
			-		199,172
Current assets					
Debtors	12	25,000		1,984,243	
Cash at bank and in hand		-		1,482,074	
		25,000		3,466,317	
Creditors: amounts falling due within one year	13	-		(2,897,563)	
Net current assets			25,000		568,754
Total assets less current liabilities			25,000		767,926
Provisions for liabilities and charges	14		-		(83,673)
Net assets			25,000		684,253
Capital and reserves					
Called up share capital	15	25,000			25,000
Profit and loss account	16	-			659,253
Equity Shareholders' funds			25,000		684,253

The notes on pages 8 to 18 form part of these financial statements.

These financial statements were approved by the board of directors on 24 June 2004 and were signed on its behalf by:



PG Cullum
Director

Reconciliation of movements in shareholders' funds For the year ended 31 December 2003

	2003 £	Restated 2002 £
Profit for the financial year	7,947,128	178,236
Dividends	(8,606,381)	-
Net (decrease)/increase to shareholders' funds	(659,253)	178,236
Opening shareholders' funds (originally £742,824, restated for prior year adjustment of £58,571; 2002 originally £552,314, restated for prior period adjustment of £46,302).	684,253	506,017
Closing shareholders' funds	25,000	684,253

Statement of total recognised gains and losses For the year ended 31 December 2003

	2003 £	Restated 2002 £
Profit for the financial year	7,947,128	178,236
Total recognised gains and losses relating to the year	7,947,128	178,236
Note on prior period adjustment		
Total recognised gains and losses relating to the year as above	7,947,128	
Prior year adjustment (as explained in note 22)	(58,571)	
Total gains and losses recognised since last financial statements	7,888,557	

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements. These have been applied consistently except that the Group has adopted Application Note G to FRS 5 ('Revenue Recognition') during the year. The accounting policy for turnover was changed during the year ended 31 December 2003 and comparative figures have been restated accordingly. The policy is described below and further details of the prior year adjustment are set out in note 22.

Basis of preparation

The financial statements are prepared in accordance with applicable Accounting Standards in the United Kingdom and under the historical cost accounting rules.

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirements to prepare group accounts. These financial statements present the information about the Company as an individual undertaking and not about its group.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Towergate Underwriting Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Towergate Underwriting Limited, within which this Company is included, can be obtained from the address given in note 19.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal rates used for this purpose are:

Computer equipment	-	25% per annum (straight line)
Furniture and equipment	-	20% per annum (straight line)
Motor vehicles	-	25% per annum (straight line)

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on acquisition is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. This is generally taken as twenty years.

Leases

Assets acquired under finance leases are capitalised and 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.

Notes (continued)

Accounting policies (continued)

Post retirement benefits

Towergate Underwriting Limited operates a defined contribution pension scheme, which is open to employees of the Company. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting year.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Taxation

Deferred tax is recognised, without discounting, in respect of all material timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover comprises net commission receivable on business incepting up to the year end. To the extent that the Company is contractually obliged to provide services after this date, a suitable proportion of income is deferred and recognised over the life of the relevant contracts to ensure that revenue appropriately reflects the cost of fulfilment of these obligations.

2 Turnover

Turnover consists entirely of sales made in the United Kingdom.

3 Profit on ordinary activities before taxation

	2003 £	2002 £
Profit on ordinary activities before taxation is stated:		
After charging		
Auditors' remuneration:		
Audit	12,350	16,714
Depreciation and other amounts written off tangible fixed assets:		
Owned	12,390	42,417
Amortisation of goodwill and trademarks	10,419	10,420
Operating leases – land and buildings	30,378	14,688
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

4 Remuneration of directors

	2003 £	2002 £
Directors' emoluments	135,636	119,941
Company contributions to money purchase pension schemes	15,229	13,096
	<u>150,865</u>	<u>133,037</u>

	Number of directors 2003	Number of directors 2002
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>2</u>	<u>2</u>

The emoluments of Mr Cullum, Mr Dyer, Mr Proverbs and Mr Crocker are paid by Towergate Underwriting Limited, which makes no recharge to the Company. Messrs Cullum, Dyer, Proverbs and Crocker are directors of the ultimate parent Company and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of the above named directors. Their total emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of the ultimate parent Company.

5 Staff numbers and costs

The average number of persons employed by the Company during the year, analysed by category, was as follows:

	Number of Employees 2003	Number of employees 2002
Administration	<u>31</u>	<u>26</u>

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	736,533	472,740
Social security costs	75,738	49,710
Other pension costs	18,369	22,789
	<u>830,640</u>	<u>545,239</u>

Notes (continued)

6 Interest payable and similar charges

	2003 £	2002 £
Interest payable on overdue tax	600	81

7 Taxation

<u>Analysis of charge in period</u>	2003 £	Restated 2002 £
UK corporation tax at 30% (2002: 30%)	107,107	265,013
Under-provision in prior years	1	664
Tax on profit on ordinary activities	107,108	265,677

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2002: higher) than the standard rate of corporation tax in the UK (30%, 2002: 30%)

<u>Current tax reconciliation</u>	2003 £	2002 £
Profit on ordinary activities before tax	8,054,236	443,913
Current tax at 30%	2,416,271	133,174
<u>Effects of:</u>		
Expenses not deductible for tax purposes	(117,290)	130,084
Dividend income	(24,275)	-
Depreciation in excess of capital allowances	(4,802)	1,755
Profit on disposal of discontinued operations	(2,162,797)	-
Total current tax charge	107,107	265,013

There are no factors which may affect future tax charges.

Notes (continued)

8 Dividends

	2003 £	2002 £
Final dividends paid	8,606,381	-
	<u>8,606,381</u>	<u>-</u>

9 Intangible fixed assets

	Goodwill £
Cost	
At beginning of year	309,122
Disposals	(309,122)
	<u>-</u>
At end of year	-
	<u>-</u>
Amortisation	
At beginning of year	154,867
Charge for year	10,419
On disposals	(165,286)
	<u>-</u>
At end of year	-
	<u>-</u>
Net book value	
At 31 December 2003	-
	<u>-</u>
At 31 December 2002	154,255
	<u>154,255</u>

All goodwill arising on acquisition is amortised over a twenty-year period.

Notes (continued)

10 Tangible fixed assets

	Computer equipment £	Furniture and equipment £	Motor vehicles £	Total £
Cost				
At beginning of year	227,363	39,506	43,319	310,188
Additions	20,914	18,888	-	39,802
Disposals	(197,604)	-	-	(197,604)
Sold to Towergate Underwriting Group Limited	(50,673)	(58,394)	(43,319)	(152,386)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of year	205,901	29,536	43,319	278,756
Charge for year	8,939	3,451	-	12,390
On disposals	(196,727)	-	-	(196,727)
Sold to Towergate Underwriting Group Limited	(18,113)	(32,987)	(43,319)	(94,419)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2003	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	21,462	9,970	-	31,432
	<hr/>	<hr/>	<hr/>	<hr/>

11 Fixed asset investments

The Company owned the whole of the issued ordinary share capital of Carrington International Insurance Brokers Limited, the principal activity of which is insurance broking. The Company also owned the whole of the issued ordinary share capital of Compleat Solutions Limited, the principal activity of which is the supply of specialist computer systems. The investments comprise:

	2003 £	2002 £
Carrington International Insurance Brokers Limited:		
25,000 Ordinary £1 shares at cost	25,000	25,000
Less: impairment provisions	(11,516)	(11,516)
Sold to Towergate Underwriting Group Limited	(13,484)	-
	<hr/>	<hr/>
Net book value	-	13,484
	<hr/>	<hr/>
Compleat Solutions Limited:		
1 Ordinary £1 share at cost	1	1
Sold to Towergate Underwriting Group Limited	(1)	-
	<hr/>	<hr/>
	-	13,485
	<hr/>	<hr/>

Notes (continued)

12 Debtors

	2003 £	2002 £
Insurance debtors	-	1,149,106
Amounts owed by group undertakings	25,000	820,833
Prepayments and accrued income	-	14,304
	<hr/> 25,000 <hr/>	<hr/> 1,984,243 <hr/>

13 Creditors: amounts falling due within one year

	2003 £	Restated 2002 £
Insurance creditors	-	2,486,943
Amounts owed to group undertakings	-	28,927
Corporation tax	-	245,169
Tax and social security	-	15,673
Other creditors	-	11,062
Accruals and deferred income	-	109,789
	<hr/> - <hr/>	<hr/> 2,897,563 <hr/>

14 Provisions for liabilities and charges

	FRS 5 Provision Restated £
At beginning of year	83,673
Charge to the profit and loss account for the year – additional amounts provided	17,527
Sold to Towergate Underwriting Group Limited	(101,200)
	<hr/> - <hr/>
At end of year	-

Notes (continued)

15 Called up share capital

	2003 £	2002 £
Authorised		
92,500 "A" Ordinary shares of £1 each	92,500	92,500
7,500 "B" Ordinary shares of £1 each	7,500	7,500
	<hr/>	<hr/>
	100,000	100,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
23,125 "A" Ordinary shares of £1 each	23,125	23,125
1,875 "B" Ordinary shares of £1 each	1,875	1,875
	<hr/>	<hr/>
	25,000	25,000
	<hr/>	<hr/>

"A" Ordinary shares and "B" Ordinary shares rank pari passu for the payment of dividends, return of assets on a winding up and on conversion. Both classes of share have identical voting rights.

16 Reserves

	2003 Profit and loss account £	2002 Restated Profit and loss account £
At beginning of year as previously reported	717,824	527,319
Prior year adjustment (see note 22)	(58,571)	(46,302)
	<hr/>	<hr/>
At beginning of year	659,253	481,017
Retained (loss)/profit for the year	(659,253)	178,236
	<hr/>	<hr/>
At end of year	-	659,253
	<hr/>	<hr/>

Notes (continued)

17 Controlling party

Mr PG Cullum, the Chairman, is the controlling party by virtue of his controlling interest in the parent Company's equity capital.

18 Pension scheme

Towergate Underwriting Limited operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the fund and amounted to £18,603 (2002: £22,789).

19 Related party disclosures

The Company is a subsidiary undertaking of Towergate Underwriting Limited (formerly Towergate Underwriting Group Limited), which is the ultimate parent Company incorporated in England and Wales.

The consolidated accounts of this Company are available to the public and may be obtained from:

Towergate House
2 County Gate
Staceys Street
Maidstone
Kent ME14 1ST

20 Operating lease commitments

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

	2003	2002
	Land & buildings	Land & buildings
	£	£
Operating leases which expire:		
Within one year	14,499	-
Between 2 and 5 years	24,851	14,688
	39,350	14,688

Notes (continued)

21 Contingent liabilities

A guarantee and debenture have been granted over the shares and the assets of the Company in favour of RBS Mezzanine Limited, under the terms of which all monies due or which may become due from the Company, or other group companies listed below, to RBS Mezzanine Limited are guaranteed. The amount due by group companies at 31 December 2003 was £21,750,000 (2002 - £19,250,000). The terms of these arrangements were updated in January 2003 and include the following group companies:

Bakers of Cheltenham Limited
Byas Mosley UK Limited
Carrington International Insurance Brokers Limited
Compleat Solutions Limited
Country Thatch Insurance Agency Limited
Dickinsons General Insurance Services Limited
Foreman Bassett (Schemes) Limited
Highlands & Islands Insurance Services Limited
Homecare Underwriting Agency Limited
Thatch Underwriting Agencies Limited
Towergate Administration Facilities Limited
Towergate Chapman Stevens Limited
Towergate Chase Parkinson Limited
Towergate Commercial Limited
Towergate Commercial Property Underwriting Limited
Towergate Commercial Underwriting Limited
Towergate Finch Professional Indemnity Limited
Towergate Holiday Homes Underwriting Agency Limited
Towergate Intermediary Support Limited
Towergate Legal & Professional Underwriting Limited
Towergate Leisure Underwriting Limited
Towergate Life & Investments Limited
Towergate Lifestyle Underwriting Limited
Towergate Marine Underwriting Limited
Towergate Programmes Limited
Towergate Sharp Insurance Brokers Limited
Towergate Strovers Limited
Towergate Underwriting Group Limited
Towergate Underwriting Limited
Towergate Wilsons Limited

Further details of the aggregate liabilities due by group companies to RBS Mezzanine Limited are set out in the financial statements of the parent company.

In the normal course of business, the company may receive claims in respect of errors and omissions. No material adverse financial impact is expected to arise from these claims.

On 29 April 2004 the parent company refinanced its borrowings with a syndicate of banks, including RBS. Further details are set out in the financial statements of the parent company.

Notes *(continued)*

22 Prior year adjustment

As described in note 1, during the year ended 31 December 2003, the Group has adopted Application Note G to FRS 5 ('Revenue Recognition') which was issued in November 2003. This has resulted in a change to the company's accounting policy in respect of turnover.

The effect on the current year's profits is to reduce profit before tax by £17,527 and the retained reserves by £12,269. In respect of the year ended 31 December 2002, the application of the prior year adjustment has reduced the pre tax profit by £17,527 and the retained reserves for the year by £12,269.

Applying the change in accounting policy to all years, shareholders funds as at 31 December 2002 have been decreased by £58,571 to £684,253 and shareholders' funds as at 31 December 2003 have been reduced by £70,840 to £25,000.