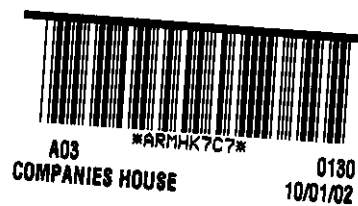


BEAZLEY FURLONGE GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS

30 JUNE 2001



BEAZLEY FURLONGE GROUP LIMITED

DIRECTORS AND ADVISORS

Directors

Joseph D Sargent - chairman
Andrew F Beazley
Nicholas H Furlonge
George P Blunden
Arthur R Manners
Jonathan G Gray
Jonathan G B Rowell
Neil P Maidment
Thomas F Sullivan

Secretary

Hampden Legal Plc
42 Crutched Friars
London EC3N 2AP

Registered office

1 Aldgate
London
EC3N 1AA

Registered Number: 4082477

Auditors

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB

Bankers

Lloyds TSB Bank Plc
113-116 Leadenhall Street
London
EC3A 4AX

BEAZLEY FURLONGE GROUP LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Beazley Furlonge Group Limited, will be held at 1 Aldgate, London EC3N 1AA on 17th January 2002 for the following purposes:

Ordinary business

1. To receive, approve and adopt the Financial Statements of the company and the group for the period ended 30 June 2001 together with the directors' and auditor's report thereon.
2. To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

‘That KPMG Audit Plc be and are hereby appointed auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company at a remuneration to be fixed by the directors’.
3. To transact any other ordinary business.

On behalf of the board



A R Manners
Director

21 December 2001

Notes:

A member entitled to attend and vote may appoint one or more proxies to attend and vote instead of him. The instrument of proxy must be in writing and specify whether the proxy is to vote for or against the specified resolutions except where such resolution is a motion for adjournment or for the appointment of a chairman.

A proxy need not also be a member.

BEAZLEY FURLONGE GROUP LIMITED

DIRECTORS' REPORT

The directors present their first report and the audited financial statements for the period ended 30 June 2001.

Incorporation and change of name

The company was incorporated on 3rd October 2000 as 3204th Single Member Trading Company Limited and changed its name to Beazley Dedicated No.3 on 23rd October 2000 and then to Beazley Furlonge Group Limited on 14th February 2001.

Business review and future developments

The company is the holding company for a Lloyd's underwriting agency, Beazley Furlonge Limited (BFL), the managing agent of syndicate 623, which has gross capacity of £215 million for the 2001 year of account (£125m for 2000) and other Lloyd's insurance related companies (see Note 8).

Developments during the period

The company acquired a controlling interest in the share capital of Beazley Furlonge Holdings Limited (BFH) on 26th March 2001. BFH is the intermediate holding company of BFL.

Profit and appropriations

The results of the group for the year are shown in the profit and loss account on page 7.

The directors do not recommend the payment of a dividend.

BEAZLEY FURLONGE GROUP LIMITED

DIRECTORS' REPORT (Continued)

Directors' interests

The directors who acted during the period and their beneficial interests in the share capital of Beazley Furlonge Group Limited as at 30th June 2001 were as follows:-

		"D" Ordinary Shares 50p each
A F Beazley	(appointed 20 th October 2000)	280,058
N H Furlonge	(appointed 15 th March 2001)	101,839
N P Maidment	(appointed 15 th March 2001)	67,207
J G Gray	(appointed 15 th March 2001)	70,000
J G B Rowell	(appointed 15 th March 2001)	103,127
A R Manners	(appointed 20 th October 2000)	12,737
J D Sargent	(appointed 15 th March 2001)	10,154
G P Blunden	(appointed 15 th June 2001)	3,055
T Sullivan	(appointed 15 th March 2001)	-
Loviting Limited	(appointed 3 rd October 2000, resigned 20 th October 2000)	-
Serjeants' Inn Nominees Limited	(appointed 3 rd October 2000, resigned 20 th October 2000)	-

All of the directors acquired their shares on 26th March 2001. A F Beazley, N H Furlonge and A R Manners also held one £1 preference share each in Beazley Investments Limited, a wholly owned subsidiary of the group.

On the 25th September 2001 the Beazley Furlonge Holdings Limited Share Option Scheme ceased, and an identical scheme, with identical rules and options issued was created in Beazley Furlonge Group Limited. The following options were transferred from Beazley Furlonge Holdings Limited to Beazley Furlonge Group Ltd.

	Option "D Shares" At 50p
N. P. Maidment	55,000
J. G. Gray	70,000
J. G. B. Rowell	70,000
A. R. Manners	28,000

BEAZLEY FURLONGE GROUP LIMITED

DIRECTORS' REPORT (Continued)

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 group 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 of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Fixed assets

Details of fixed assets are set out in notes 6, 7 and 8 to the financial statements.

Charitable donations

During the period the group paid £5,400 in charitable donations.

Auditors

KPMG Audit plc were appointed as auditors during the period ended 30 June 2001 and have indicated their willingness to continue in office for the forthcoming year. A resolution to that effect will be put to the members at the Annual General Meeting.

On behalf of the board


Arthur R Manners

Director

21 December 2001

One Aldgate
London
EC3N 1AA

BEAZLEY FURLONGE GROUP LIMITED

REPORT OF THE AUDITORS, KPMG AUDIT plc, TO THE MEMBERS OF
BEAZLEY FURLONGE GROUP LIMITED

We have audited the financial statements on pages 7 to 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, 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. 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 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 affairs of the company and the group as at 30 June 2001 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

28 December 2001

BEAZLEY FURLONGE GROUP LIMITED

PROFIT & LOSS ACCOUNTS
PERIOD ENDED 30 JUNE 2001

	Note	For the period ended 30 June 2001	
		Group £	Company £
Turnover	2	254,998	260,000
Administrative expenses		(239,315)	(29,314)
Operating profit		<u>15,683</u>	<u>230,686</u>
Share of operating loss in associate undertakings		(26,488)	-
		<u>(10,805)</u>	<u>230,686</u>
Interest and dividends receivable		10,155	-
Interest payable		(128,453)	(128,330)
Profit/(loss) on ordinary activities before taxation	3	<u>(129,103)</u>	<u>102,356</u>
Taxation	5	8,524	(32,469)
Profit/(loss) on ordinary activities after Taxation		<u>(137,627)</u>	<u>69,587</u>

There were no recognised gains or losses during the period other than those passing through the profit and loss account.

The reconciliation of movements in shareholders' funds is set out in note 17 to the financial statements.

The notes on pages 10 to 27 form part of these financial statements.

BEAZLEY FURLONGE GROUP LIMITED

BALANCE SHEETS AS AT 30 JUNE 2001

		30 June 2001	
		Group	Company
		£	£
Fixed assets:			
Intangible assets	6	6,265,922	-
Tangible assets	7	36,481	-
Investments	8	5,242,729	5,082,585
		<hr/>	<hr/>
		11,545,132	5,082,585
Current assets:			
Debtors	10	1,055,307	991,672
Investments	11	90,019	-
Cash at bank		673,682	1,324
		<hr/>	<hr/>
		1,819,008	992,996
Creditors:			
Amounts falling due within one year	12	(6,230,527)	(956,022)
		<hr/>	<hr/>
Net current assets/(liabilities)		(4,411,519)	36,974
Creditors: amounts falling due after more than one year			
Debenture loans	13	(4,057,000)	(4,057,000)
Other	13	(600,000)	(600,000)
		<hr/>	<hr/>
Total net assets		2,476,613	462,559
		<hr/>	<hr/>

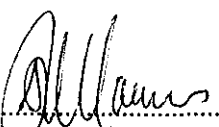
BEAZLEY FURLONGE GROUP LIMITED

BALANCE SHEETS AS AT 30 JUNE 2001

	Note	30 June 2001	
		Group £	Company £
Capital and reserves:			
Called up share capital	15	392,672	392,672
Merger Reserve		2,221,568	-
Profit and loss account	16	(137,627)	69,887
		<hr/>	<hr/>
		2,476,613	462,559
		<hr/>	<hr/>

The financial statements were approved by the board of directors on 21 December 2001.

Signed on behalf of the board of directors by



A R Manners, Director

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Under Financial Reporting Standard 1 the company and the group are exempt from the requirement to prepare a cash flow statement on the grounds that the group constitutes a 'small group' as defined by the Companies Act 1985.

Basis of consolidation

The group financial statements consolidate those of the company and its subsidiaries following acquisition accounting principles. Purchased goodwill is capitalised and will be written off over the period of its estimated useful economic life of 20 years. The investment in the associate is accounted for on the equity basis.

Investments

Investments in group undertakings and associates are stated at cost less permanent diminution in value. Other investments are shown at the lower of cost and the directors' valuation.

Turnover

Turnover represents salaries and profit commission derived from underwriting Names at Lloyd's.

Agency salaries represent net retained salaries and have been accounted for on an accruals basis.

Profit commission is accounted for on a received basis.

Operating leases

Rentals payable under operating leases are charged on a straight line basis over the term of the lease.

Depreciation

Depreciation of tangible fixed assets is calculated by reference to cost at rates estimated to write off the relevant assets over their expected useful lives, taking into account normal commercial and technical obsolescence.

The annual rates used are:

Computer equipment	33 1/3% on cost
Furniture and equipment	20% on cost
Motor vehicles	25% on cost
Leasehold buildings	Over period of lease

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Deferred taxation

Deferred taxation is accounted for on all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

Pension costs

The expected cost of providing pensions is recognised in accordance with Financial Reporting Standard 17 on a systematic and rational basis over the period from which the benefit from the employee's service is derived. Contributions are assessed in accordance with advice of a qualified actuary, using the projected unit method of funding.

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 consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off.

2. Turnover

	For the period ended 30 June 2001	
	Group	Company
	£	£
Underwriting agency salaries	254,998	-
Management fee	-	260,000
	<hr/>	<hr/>
	254,998	260,000
	<hr/>	<hr/>

Turnover and profit before taxation arise in the United Kingdom, from business underwritten at Lloyd's on behalf of Names resident in the United Kingdom and overseas.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Profit/(loss) on ordinary activities before taxation

	For the period ended <u>30 June 2001</u>	
	Group £	Company £
Profit/(loss) on ordinary activities before taxation is stated after charging and crediting the following:		
Depreciation - tangible fixed assets	14,286	-
Amortisation of goodwill	90,710	-
Auditors' remuneration - audit	24,500	8,813
- other	5,613	-
Staff costs	1,062,158	-
Interest payable		
- bank loans	25,764	25,641
- other loans	102,689	102,689
Rental payments under operating leases		
- buildings	80,440	-
- motor vehicles	29,321	-
	<hr/>	<hr/>
Other costs	1,435,481	137,143
Recharged to managed syndicate	286,001	20,501
	(1,353,714)	-
	<hr/>	<hr/>
	367,768	157,644
	<hr/>	<hr/>

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. <u>Directors and employees</u> (Group)	For the period ended <u>30 June 2001</u> £
Staff costs including director's emoluments	
Salaries	886,645
Social security	89,713
Pension costs	85,800
	<hr/>
	1,062,158
	<hr/>
Average number employed including executive directors	45
	<hr/>
Total directors' emoluments	334,926
	<hr/>
Highest paid director	70,647
	<hr/>
Accrued retirement benefit of highest paid director	82,988
	<hr/>
	<u>Number of directors</u> <u>2001</u>
Retirement benefits are accruing to the following number of directors under defined benefit schemes	6
	<hr/>

Directors and employees of the group who participate on the syndicate managed by the group do not pay agency salaries or profit commission on those participations.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Taxation

	For the period ended <u>30 June 2001</u>	
	Group £	Company £
UK corporation tax on: Profit on ordinary activities at 30%	(8,524)	32,469
	<hr/>	<hr/>

Provision for deferred taxation has not been made as it is considered immaterial.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Intangible fixed assets

<u>Group</u>	<u>Goodwill</u> £
Cost:	
Opening balance	-
Additions	6,356,632
	<hr/>
At 30 June 2001	6,356,632
	<hr/>
Amortisation:	
Charge for the period	90,710
	<hr/>
At 30 June 2001	90,710
	<hr/>
Net book amount:	
At 30 June 2001	6,265,922
	<hr/> <hr/>

Goodwill arose on the acquisition of Beazley Furlonge Holdings Limited. The value attributed represents the excess of the purchase consideration over the fair net book value of the assets acquired and is being amortised over the directors' estimate of its useful economic life of 20 years.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tangible fixed assets

<u>Group</u>	Short leasehold Land and <u>buildings</u> £	Furniture Motor vehicles & equipment £	<u>Total</u> £
Cost:			
Original cost of subsidiary assets acquired	279,957	267,731	547,688
	<hr/>	<hr/>	<hr/>
At 30 June 2001	279,957	267,731	547,688
	<hr/>	<hr/>	<hr/>
Depreciation:			
Cumulative depreciation on subsidiary assets acquired	232,193	264,728	496,921
Charge for the period	13,997	289	14,286
	<hr/>	<hr/>	<hr/>
At 30 June 2001	246,190	265,017	511,207
	<hr/>	<hr/>	<hr/>
Net book amount: At 30 June 2001	33,767	2,714	36,481
	<hr/>	<hr/>	<hr/>

The net book value of subsidiary fixed assets was equivalent to their fair value at the acquisition date.

All tangible fixed assets are held by a subsidiary undertaking.

There are no assets held under finance leases.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Investments

	30 June 2001	
	Group £	Company £
Associated undertakings (a)	5,222,806	-
Subsidiary undertakings (b)	-	5,082,585
Other fixed asset investment (c)	19,923	-
	<hr/>	<hr/>
Fixed asset investments at 30 June 2001	5,242,729	5,082,585
	<hr/>	<hr/>

(a) Associated Undertakings

Cost on acquisition of subsidiary	5,248,294	-
Share of loss retained by associated undertakings	(26,488)	-
	<hr/>	<hr/>
	5,222,806	Nil
	<hr/>	<hr/>

Beazley Finance Limited has been treated as an associated company as the directors of Beazley Furlonge Holdings Limited are represented on the board of Beazley Finance Limited and take a role in the day to day running of the company. They are therefore in a position to exert significant influence.

Beazley Furlonge Holdings Limited owns 5,000,000 ordinary shares in Beazley Finance Limited, the holding company of Beazley Dedicated Limited, the dedicated corporate member of Syndicate 623. This shareholding represents 22.7% of the entire share capital of Beazley Finance Limited. Beazley Furlonge Holdings Limited has committed £2million of capital to Beazley Dedicated Limited to support underwriting on Syndicate 623. The proportion of profits receivable by the Group will be dependent on the amount of capital provided by Beazley Furlonge Holdings Limited in comparison to the total capital requirement of Beazley Dedicated Limited for each year of account.

Beazley Dedicated Limited participates in Syndicate 623 for all years of account from 1998 to 2001. Reflected in these accounts is the 1999 year of account forecast loss of £66,782 and the forecast for both years of accounts 2000 and 2001, together with the results of Beazley Finance Limited to 30 June 2001.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Investments (Continued)

(b) Subsidiary undertakings - unlisted

	<u>Country of incorporation and operation</u>	<u>Class of share</u>	<u>Proportion held</u>	<u>Nature of business</u>
Beazley Furlonge Holdings Limited	England	Ordinary	100%	Intermediate Holding Company
Beazley Furlonge Limited	England	Ordinary	100%	Lloyd's underwriting agents
BFHH Limited	England	Ordinary	100%	Dormant from 30 June 1994
Beazley Investments Ltd	England	Ordinary	100%	Investment Company
Beazley Staff Corporate Member Limited	England	Ordinary	100%	Non trading
Beazley Dedicated No. 2 Limited	England	Ordinary	100%	Underwriting at Lloyd's

(c) Other fixed asset investments

Asia Pacific Underwriting Agency Ltd (APUA)

The investment in APUA of £19,923 represents the start up cost and the consideration paid for additional shares in APUA. APUA is an underwriting agency established in Hong Kong that underwrites on behalf of Syndicate 623 and others. All income and costs that were attributable to the investment are for the benefit of the Names of Syndicate 623.

ENAM Management Company Inc.

Beazley Furlonge Holdings owns one share in a non-profit making company incorporated in the USA known as ENAM Management Company Inc. The company is owned 75% by Lloyd's Managing Agents and 25% by R K Carvill (International Holdings) Ltd. ENAM Management Company Inc. is not involved in any form of risk carrying and is a vehicle designed to bring together markets which may be interested in Specialty Programmes. It has the object of bringing additional business into Lloyd's by reducing the acquisition costs.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Acquisitions

On 26th March 2001 the company acquired the entire share capital of Beazley Furlonge Holdings Limited, for a consideration of £5,082,585.

The net assets of Beazley Furlonge Holdings Limited and its subsidiary companies were as follows:-

	<u>Book value</u>	<u>Fair value</u>	<u>Consolidation</u>	<u>Fair value</u>
	<u>£</u>	<u>Adjustments</u>	<u>Adjustments</u>	<u>£</u>
Net assets acquired:-				
Called up share capital unpaid	3,012,878		(3,000,000)	12,878
Intangible fixed assets (d)	1,178,438			1,178,438
Tangible fixed assets	53,467			53,467
Investments	5,069,130	288,106 (a)		5,357,236
Debtors	348,709	658,560 (b)		1,007,269
Cash at bank and in hand	189,968			189,968
Creditors due in less than one year	(4,773,298)	(900,000) (c)		(5,673,298)
	<u>5,079,292</u>	<u>46,666</u>	<u>(3,000,000)</u>	<u>2,125,958</u>
Goodwill arising on acquisition (d)				5,178,195
Merger reserve arising on acquisition				(2,221,568)
				<u>5,082,585</u>
Discharged by:				
Fair value of shares issued (note 15)				392,672
Loan stock (note 13)				4,057,000
Cash				342,000
Costs associated with the acquisition				290,913
				<u>5,082,585</u>

Adjustments:

- (a) Forecast underwriting profit for the open years of account supported by Beazley Dedicated Ltd.
- (b) Profit commission forecast to be paid to Beazley Furlonge Ltd.
- (c) Dividend payable in relation to the open year of account of syndicate 623
- (d) The goodwill arising on the acquisition of Beazley Furlonge Holdings Limited has been capitalised and will be written off over the period of its estimated useful economic life of 20 years.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Acquisitions (Continued)

The consolidated profit and loss accounts of Beazley Furlonge Holdings Limited for the year ended 30th June 2000 and the period from 1st July 2000 to 26th March 2001, being the date of acquisition, are as follows:-

	Period from 1st July 2000 to 26th March 2001 £	Year ended 30th June 2000 £
Turnover	916,193	950,690
Administrative expenses	(594,350)	(756,125)
Operating profit	321,843	194,565
Share of operating loss in associate undertakings	(58,637)	108,596
	263,206	303,161
Interest and dividends receivable	19,446	30,983
Interest payable	(474)	-
Profit on ordinary activities before taxation	282,178	334,144
Taxation	(143,485)	(89,205)
Profit on ordinary activities after taxation	138,693	244,939
Dividends	-	(139,692)
Retained profit for the period	138,693	105,247

There were no recognised gains and losses in the period to 26 March 2001 other than the profit of £138,683 above.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Debtors

	<u>30 June 2001</u>	
	Group £	Company £
Amount owed by group undertakings	-	980,450
Amount owed by associated undertakings	304,350	-
Other debtors	74,396	-
Prepayments and accrued income	676,561	11,222
	<hr/>	<hr/>
	1,055,307	991,672
	<hr/>	<hr/>

11. Current Asset Investments

	<u>30 June 2001</u>	
	Group £	Company £
Current asset investments		
- on acquisition of Beazley Furlonge Holdings Limited	88,018	-
- additions	2,001	-
	<hr/>	<hr/>
- at 30 June 2001	90,019	Nil
	<hr/>	<hr/>

Beazley Investments Limited holds 38,496 "D" Shares of the Company on a temporary basis pending reallocation to employees of Beazley Furlonge Limited. These shares have been compulsorily purchased in accordance with the Articles of Association, from employees who have left the company. Amendments to the Articles have been approved by shareholders to allow the reallocation of the shares to employees at the discretion of the Directors.

12. Creditors: amounts falling due within one year

	<u>30 June 2001</u>	
	Group £	Company £
Called up capital unpaid	5,000,000	-
Bank overdraft	3,001	-
Amounts owed to group undertakings	-	50
Corporation tax payable	149,933	32,469
Other creditors including taxation and social security	46,264	-
Accruals and deferred income	216,329	123,503
Unsecured bank loan	815,000	800,000
	<hr/>	<hr/>
	6,230,527	956,022
	<hr/>	<hr/>

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Creditors: amounts falling due after one year

	<u>30 June 2001</u>	
	<u>Group</u>	<u>Company</u>
	£	£
Unsecured bank loan	600,000	600,000
9.5% unsecured convertible loan stock – 2007	4,057,000	4,057,000
	<hr/>	<hr/>
	4,657,000	4,657,000
	<hr/>	<hr/>

The convertible loan stock is redeemable at its' principle amount, together with any interest accrued as follows:

£1,395,000	on 31 December 2004
£2,662,000	on 31 December 2007

The company may redeem notes at an earlier date.

The loan stock may be converted to shares at the option of the Noteholders if the company fails to pay principal or interest amounts within ten business days of the due date, is subject to a winding up or if the Council of Lloyd's withdraws the permission of the group to manage syndicates at Lloyd's.

14. Loans

	<u>30 June 2001</u>	
	<u>Group</u>	<u>Company</u>
	£	£
Amount falling due:-		
In one year or less on demand	815,000	800,000
Between one and two years	600,000	600,000
Between two and five years	1,395,000	1,395,000
In five years or more	2,662,000	2,662,000
	<hr/>	<hr/>
	5,472,000	5,457,000
Less: included in creditors falling due within one year	815,000	800,000
	<hr/>	<hr/>
	4,657,000	4,657,000
	<hr/>	<hr/>

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Share capital

As at 30 June 2001:

	<u>Authorised</u> 2001 £	<u>Allotted and called-up</u> 2001 £
Equity Interests:		
500,000 'B' shares of 50p each	250,000	-
1,015,358/785,344 'D' shares of 50p each	507,679	392,672
Non Equity Interests:		
6,600 'A' shares of 50p each	3,300	-
3,400 'C' shares of 50p each	1,700	-
	<hr/> 762,679 <hr/>	<hr/> 392,672 <hr/>

The classes of share capital have the following class rights.

"A" shares of 50p each - have the right to receive notice and to attend and vote at General Meetings. Otherwise they have no rights to income and on winding-up are redeemed at par.

"B" shares of 50p each - have no voting rights. They are entitled to the "B" Reserve", both in relation to income distribution and distribution of capital.

"C" shares of 50p each - have the right to receive notice of and to attend and vote at General Meetings. Otherwise they have no rights to income and on winding up are redeemed at par.

"D" shares of 50p each - have the right to receive notice of and to attend and vote at General Meetings. They are entitled to the "D" reserve, both in relation to income distribution and to the distribution of capital.

On 30 June 2001, 568,656 authorised Convertible shares of 50p each were automatically converted into "D" Ordinary shares of 50p each.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Reserves

GROUP

	Total Reserves £	Merger Reserve £	Profit & Loss account £
Balance brought forward	-	-	-
Retained loss for the period	(137,627)	-	(137,627)
Merger reserve on acquisition of Beazley Furlonge Holdings Limited	2,221,568	2,221,568	-
	<hr/>	<hr/>	<hr/>
At 30 June 2001	2,083,941	2,221,568	(137,627)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

COMPANY

	Total Reserves £	Merger Reserve £	Profit & Loss Account £
Balance brought forward	-	-	-
Retained profit for the year	69,887	-	69,887
	<hr/>	<hr/>	<hr/>
At 30 June 2001	69,887	Nil	69,887
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The cumulative amount of goodwill written off at 30 June 2001 is £90,710.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Reconciliation of movements in shareholders' funds

	For the year ended 30 June 2001	
	Group £	Company £
Profit/(loss)for the financial period	(137,627)	69,857
Issue of shares	392,672	392,672
Merger reserve on acquisition	2,221,568	-
	<hr/>	<hr/>
Closing shareholders' funds	2,476,613	462,559
	<hr/>	<hr/>

The merger reserve and retained reserves are attributable to the Equity shareholders.

18. Pension Commitments

Beazley Furlonge Limited operates a pension scheme providing benefits based on final pensionable salary. The pension scheme was set up under trust and the assets of the scheme are held separately from those of the Group.

The pension cost charged to the profit and loss account is calculated by an independent actuary, in such a way as to spread the cost of pensions over the employees' working lives with Beazley Furlonge Limited. The pension cost is based on an actuarial valuation carried out with an effective date of 1st April 1998. The actuarial method used to calculate the pension cost was the projected unit method. The most significant assumptions for their effect on the pension costs are those relating to the rate of return on the investments of the scheme and rate of increase in salaries and pensions. The investment return used was 7.7% p.a., the rate of earnings increase used was 5.2% p.a., and the rate of pension increase used was 2.7% p.a.

The pension cost recommended to be charged to the profit and loss account for each of the three years after the valuation date is 17.1% p.a. of pensionable salaries. This cost was after a reduction of 2% p.a. of pensionable salaries in respect of the amortisation of past overfunding. The total amortisation period is 18 years, the average remaining service life of the active employees in the scheme. Premiums for death-in-service benefits are payable in addition.

The market value of the assets was £2,383,165, representing 121.6% of the liability (under the valuation method used) for scheme benefits in respect of service to the valuation date, based on salaries projected to members' expected date of leaving service. This is a non-contributory pension scheme.

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Summary of results	% Pensionable Salaries p.a.
Regular Cost for future service retirement benefits	19.1
Variation to Regular Cost in respect of surplus	(2.0)
	<hr/>
Total for retirement benefits	17.1
	<hr/>
Death-in-service contributions are payable in addition	
Surplus for accounting purposes	£423,000
Market value of assets	£2,383,165
Funding level	121.6%

The pension cost charge amounting to £85,800, representing contributions payable by Beazley Furlonge Limited, was recharged in the appropriate proportion to the managed syndicate.

Whilst the group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs' under FRS 17 'Retirement benefits' the following transitional disclosures are required:

A valuation has been carried out by the actuary on an FRS 17 basis as at 30th June 2001. The market value of the scheme's assets was £3,687,539 at 30th June 2001 and the actuarial value of those assets represented 86% of the benefits that had accrued to members, after allowing for expected future increased in earnings. The contributions of the company will remain at 16.9%. It is the intention of the company to transfer the pension fund to the Lloyd's Superannuation fund effective 1st July 2001. The level of contributions will be reviewed as part of this process.

The major assumptions used in the 30th June 2001 valuation were:

	2001
Rate of increase in salaries	4.5%
Rate of increase in pensions in payment	2.5%
Discount rate	6.0%
Inflation assumption	2.5%
Long term investment yield	7.0%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

BEAZLEY FURLONGE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Value at 2001 £
Equities	3,274,799
Bonds	412,740
	<hr/> 3,687,539
Present value of scheme liabilities	4,309,000
	<hr/>
Deficit in the scheme	621,461

19. Contingent liabilities and financial commitments

The company has given a fixed and floating charge over its assets to Lloyds TSB plc in respect of the loans taken out to finance the purchase of the shares of Beazley Furlonge Holdings Ltd and has agreed to guarantee the obligations of Beazley Furlonge Ltd in respect of its obligations to Lloyds TSB plc.

A subsidiary company in the ordinary course of business has given a counter-guarantee to its bankers in respect of bank guarantees totalling £50,000 issued to staff for membership of Lloyd's to support their underwriting.

A subsidiary company entered into a leasehold tenancy agreement on 13 March 1997 in respect of 1 Aldgate. The company was committed to make rental payments amounting in the aggregate to £119,924 in respect of the remaining 9 month period of the tenancy (2000 - £279,822 in respect of the remaining 21 months).

The company has guaranteed the £2,000,000 letter of credit issued to Beazley Dedicated Limited which is used as Funds at Lloyd's for underwriting.

20. Post Balance Sheet Event

The terrorist attack on the World Trade Centre in New York on 11th September 2001 is estimated to reduce the profitability of managed syndicate 623 for the 2001 year of account by approximately 10% of stamp capacity. Consequently, the profit commission expected to be received in 2004 will be reduced substantially.

The consequences of the loss are however, expected to present opportunities for the syndicate in the future.