Broker Direct Plc

Financial Statements

For the year ended
31 December 2001

Company Number: 2958427

Broker Direct
A better way to insure

Index Pages

Company registration number:	2958427
Registered Office:	Higham Business Centre Midland Road Higham Ferrers Northamptonshire NN10 8DW
Directors:	A Paddick B Fehler R Green I Gray N Harris T Stanley G Jones
Secretary:	I Gray
Bankers:	National Westminister Bank Plc Oldham Corporate Office PO Box 78 3 Greaves Street Oldham Lancs OL1 1QN
Solicitors:	Horsey Lightly Finn Solicitors 20 West Mills Newbury Berkshire RG14 5HG
Auditors:	Grant Thornton Registered Auditors Chartered Accountants Heron House Albert Square Manchester M60 8GT

I am very pleased to report that the Company made a net profit of £474,134 in 2001, which represents a very acceptable return on capital employed of 12.1%.

However, I am very disappointed to report that Trafalgar (our risk carrier) suffered an underwriting loss in 2001.

During the first two quarters of 2001 it was predicted that Trafalgar was on target for an underwriting profit for the year, which indicated that our risk profiling and rating was maturing positively as expected in accordance with account experience and volume.

But, during the third quarter certain adverse factors started to emerge. Firstly, Trafalgar's technical reserves needed strengthening in respect of outstanding liability claims from previous years, as a result of the well publicised escalation in damages awards that have affected the entire industry in recent times. Secondly, there was a disturbing increase in new policyholder non-disclosure, including where introductory no claims bonus was involved. Thirdly, we discovered that our premium instalment scheme had attracted a disproportionate volume of poor quality business with a high percentage of claims during the first few months followed by non-payment and subsequent policy cancellation. Also, against the background of losses in Northern Ireland, Trafalgar ceased underwriting there with effect from 1st March 2002 – although a new risk carrier is likely to underwrite the profitable segment of the NI account on behalf of Broker Direct later this year.

During the latter part of 2001, Broker Direct itself invested heavily in producing significantly improved risk statistics and has developed a 'state of the art' data warehouse. This has enabled the Company to identify more easily unacceptably high risk policyholder profiles. The Company has already taken action to reduce Trafalgar's exposure to business that could generate a serious loss ratio – such as certain types of premium instalment cases, introductory no claims discounts and a number of post codes in which other insurers appear to be under-pricing. As a result of these actions it is anticipated that premium income will be reduced to some extent during 2002 (£71m in 2001), growing again in 2003 as the account gains more business from the market sectors we seek to attract. We believe that the actions taken already will produce an underwriting profit.

Broker Direct is very reliant on brokers themselves at the point of sale where vigilance and good business practice by brokerage staff is absolutely essential. For example, some brokers have allowed an unusually high proportion of introductory no claims discounts – some of these cases have resulted in six and seven figure liability claims.

Our analysis shows that the majority of shareholding brokers are able to identify poor quality business and do not want it on their books. We should all be aware that there is a new mood in the market; insurers will no longer support loss making accounts however large, and brokers can expect to be increasingly scrutinised on their point of sale practices. To help everyone, Broker Direct will be launching a series of broker training courses later in the year, with a view to the mutual conversion of more quality business and to help brokers' staff identify and avoid dishonest policyholders.

The Company is now an extremely sophisticated, highly efficient, market-leading organisation with low operating costs. Furthermore, shareholder response to our annual quality assurance survey tells us that we are continuing to provide a superior service in the market. The launch of our second motor product during 2001 was received well and it is already making up for some of the business we will not be expecting to renew or attract for the reasons stated above.

After a period of significant growth from 'scratch' just a few years ago, 2002 will be a year for the Board to 'take stock', consolidate the Company's strong position and plan for the future. We are now ready to start developing new (non-motor) insurance product lines using Internet delivery, in addition to anticipating the many opportunities arising from the IIB's new network proposals. I expect that these changes will have a very beneficial impact on profits and our shareholders' business prospects during 2003 and onwards.

During this important period of the Company's development, I urge all shareholding brokers to take a very responsible view, regarding the quality and quantity of business they place with us – themselves urging their frontline staff to support Broker Direct in the long-term interests of all concerned. In this regard, we must all contribute to ensure that in future our JVA partner (Trafalgar/Allianz Cornhill) consistently earns a return commensurate with their support.

For some time now, it has been clear that shareholders would like to see a more efficient and transparent market in their shares. A proposal will be made at the forthcoming Annual General Meeting to improve the share market and prepare the way for new agent/shareholders to be recruited.

I would like to take this opportunity of thanking the Broker Direct management and staff for their considerable efforts in steering the company through a challenging period and for the work already done towards improving the Trafalgar result. I am confident that this will have come to fruition by the time I write my next report to shareholders.

Andrew N Paddick
Chairman

3 May 2002

The directors present their annual report and audited financial statements for the year ended 31 December 2001.

Principal activity

Broker Direct Plc is an insurance management services and marketing organisation. The Company designs and administers personal lines insurance products for exclusive distribution through its shareholding broker network. The product range is marketed under the brand name of Broker Direct.

Underwriting is undertaken by Trafalgar Insurance PLC, a Treasury authorised insurance company. Trafalgar is a subsidiary of Cornhill Insurance PLC, itself part of Allianz – Europe's largest insurance group.

Brokers, both as shareholders and participants in the enterprise, are involved in the planning of the Company's future growth and prosperity. In this sense, shareholding brokers are the architects of their own future.

Review of the business

The profit and loss account shows a profit after taxation for the year of £474,134 (2000 : £184,441). The directors are unable to recommend payment of a dividend at this time (2000 : £Nil).

Directors

The directors who were serving at the year end are shown below:

Andrew Paddick	Chairman	Non-Executive
Barry Fehler	Broker Liaison Director	Non-Executive
Roy Green	Director and General Manager	Executive
Iain Gray	Finance Director	Executive
Neil Harris	Insurance Director	Executive
Terry Stanley	Broker Services and Marketing Director	Executive
Gareth Jones	Cornhill Insurance PLC nominated Director	Non-Executive

Directors interests

The interest of the directors in office at the end of the year, in the shares of the company at the 1 January 2001 and the 31 December 2001, were as follows:

Andrew Paddick	'A' Ordinary shares	25,394
Barry Fehler	'A' Ordinary shares	6,250
Roy Green	'A' Ordinary shares	12,500
Iain Gray	'A' Ordinary shares	Nil
Neil Harris	'A' Ordinary shares	Nil
Terry Stanley	'A' Ordinary shares	Nil
Gareth Jones	'A' Ordinary shares	Nil

Transactions in which directors had a material interest

The Institute of Insurance Brokers Group, of which Andrew Paddick and Barry Fehler are directors, provided dispute resolution services during the year. The fee for these services was £8,161.

South Essex Insurance Brokers (SEIB), of which Barry Fehler is the Managing Director, are nominated advisers to Broker Direct Plc as follows :

Company insurances:	Office
	Company Cars

No fee is paid directly for these services, though SEIB do receive commission from the providing insurers.

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employment policies

The Company maintains a policy of offering employment opportunities that are free from discrimination on any grounds, other than unsuitability for the position in question, whether this relates to initial selection for employment, promotion or any other employment matter. Equal consideration is given to disabled people, where they have the appropriate experience, qualifications and ability to do the job.

Employee involvement

We seek to employ staff who will take the opportunity presented to make positive contributions to the development of the business, and it is the approach of the Company to be as open as possible with staff and obtain their feedback.

Creditor payment policy

The Company does not follow any formal code of practice on payment to its creditors. However, it is the Company's policy to:

- settle the terms of payment with its supplier when agreeing the terms of each transaction
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all creditors for revenue and capital suppliers of goods and services without exception.

The Company's average creditor payment period at 31 December 2001 was 12 days (2000 : 30 days).

Auditors

Grant Thornton have indicated their willingness to be re-appointed and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

A N Paddick
Chairman

3 May 2002

Introduction

In framing the remuneration policy, consideration has been given to the 'Director's Remuneration Report of a Study Group chaired by Sir Richard Greenbury' (The Greenbury Report) 17th July 1995.

To avoid potential conflicts of interest, the Board of Directors has delegated responsibility for determining executive remuneration to a Committee of Non-Executive Directors, who:

- Are knowledgeable of the business
- Are responsive to the shareholders' interests
- Have no personal financial interest in the remuneration decisions they are taking.

The members of the Committee are:

Barry Fehler - Chairman
Andrew Paddick
Gareth Jones

Executive Director's Remuneration Policy – objectives

- To provide packages that attract, retain and motivate the Executive Directors
- Link rewards to performance, by both company and individual
- Align the interests of Directors and shareholders in promoting the company's progress

Directors' service contracts

The service contracts for Roy Green, Neil Harris, Terry Stanley and Iain Gray are in a similar form. The term in each case is for a rolling term of two years. The company may give three months notice at any time subject to paying not more than two years compensation (except in specific circumstances when no compensation will be payable).

Report

During the final quarter of 2001 and the first quarter of 2002, the Committee reviewed the salaries, benefits and long term incentive packages of the executive directors.

The Committee wishes to convey its congratulations to the executive team for the company's excellent development in achieving substantial growth through the year and more than doubling the profit of £184,441 in 2000 to £474,134 in 2001. However, as already mentioned in the Chairman's Report, the joint venture with Cornhill Insurance saw a significant loss in the operations of Trafalgar Insurance and consequently, the salary reviews of the Executive Directors for 2002 have been held at a nominal rate of increase.

The Committee notes that the company has failed to reach the written premium targets set out in the Unapproved Share Option Scheme as set down in 1996. As a result the Directors will receive no reward. It is now appropriate to re-incentivise the Directors based on targets reflecting the position of the Company now and its objectives for the next five years.

It is recognised that basing a share option scheme on premium growth can be contradictory to the profit requirement of the joint venture. A resolution will therefore be presented at the 2002 Annual General Meeting proposing the implementation of a scheme whereby share options are granted when the Company's profits exceed a 15% return on Capital. Full details of the proposed scheme are included with the Notice of Annual General Meeting and it is the recommendation of this Committee that the resolution be approved

Directors' remuneration packages are subject to annual review. The next such review will be in the final quarter of 2002.

We have audited the financial statements of Broker Direct Plc for the year ended 31 December 2001 which comprise the principle accounting policies, the profit and loss account, the balance sheet, the cashflow statement and notes 1 to 16.

These financial statements have been prepared in accordance with the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the director's report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and 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 directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

Grant Thornton
Registered Auditors
Chartered Accountants
Manchester

3 May 2002

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention.

The principal accounting policies of the company are set out below.

Turnover

Turnover is the amount receivable for goods and services provided. No VAT is chargeable on these services.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal monthly instalments over their expected useful lives. The periods generally applicable are:

Leasehold improvements	4 years
Computers - Hardware	3 years
Computer - Software Development	5 years
Equipment	4 years
Furniture and fittings	4 years
Cars	3 years

Deferred acquisition costs

Acquisition costs comprise the commission expenses of acquiring policies written during the year.

Acquisition costs that relate to a subsequent financial year are deferred to the extent that they are attributable to income unearned at the balance sheet date. The amount not yet passed through the profit and loss account is held in the balance sheet.

Income recognition

Income comprises commission received for selling and administering annual insurance policies. The proportion of income that relates to the administration of these policies is deferred and released to the profit and loss account throughout the term of the policy in equal monthly instalments. The amount not yet passed through the profit and loss account is held in the balance sheet.

Leased assets

The Company has no Assets held under finance leases or hire purchase contracts.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Contributions to pension funds

Defined contribution scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

For the year ended 31 December 2001

Continuing Activities	Note	2001 £	2000 £
Sales and commission		14,211,913	9,866,037
Movement in deferred commission		(1,168,981)	(1,149,165)
Turnover		13,042,932	8,716,872
Cost of sales		(7,842,539)	(5,280,087)
Gross profit		5,200,393	3,436,785
Other operating charges	*2*	(4,803,259)	(3,266,393)
Operating profit		397,134	170,392
Interest income	*3*	77,000	14,049
Profit on ordinary activities before taxation	*1*	474,134	184,441
Taxation	*5*	-	-
Profit transferred to reserves	*10*	474,134	184,441

There were no recognised gains or losses other than the results for the year.

The accompanying accounting policies and notes form an integral part of these financial statements.

	Note	2001 £	2000 £
Fixed assets			
Tangible assets	6	572,107	568,122
Current assets			
Debtors	7	5,630,709	6,481,753
Cash at bank and in hand		2,239,020	1,059,976
		7,869,729	7,541,729
Creditors: amounts falling due within one year	8	(7,753,119)	(7,895,268)
Net current assets/(liabilities)		116,610	(353,539)
		688,717	214,583
Capital and reserves			
Called up share capital	9	3,927,186	3,927,186
Profit and loss account	10	(3,238,469)	(3,712,603)
Shareholders' funds	11	688,717	214,583

The financial statements were approved by the Board on 3 May 2002.

A N Paddick, Chairman

R Green, Director

The accompanying accounting policies and notes form an integral part of these financial statements.

For the year ended 31 December 2001

	Note	2001 £	2000 £
Net cash inflow from operating activities	*12*	1,325,033	633,027
Returns on investments and servicing of finance			
Interest received		77,000	14,049
Net cash inflow from operating activites, returns on investments and servicing of finance		1,402,033	647,076
Taxation		-	-
Capital expenditure			
Purchase of tangible fixed assets		(225,100)	(516,859)
Proceeds of Insurance claims		2,111	2,343
Net cash outflow from capital expenditure		(222,989)	(514,516)
Increase in cash	*13*	1,179,044	132,560

The accompanying accounting policies and notes form an integral part of these financial statements.

1 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is attributable to the principle activity of the company

The profit on ordinary activities before taxation is stated after:

	2001 £	2000 £
Auditors' remuneration	16,450	14,688
Depreciation of tangible fixed assets (owned)	221,115	129,915
Operating lease charges - Land & Buildings	109,084	82,698
Operating lease charges - Other	36,374	133,807

2 OTHER OPERATING CHARGES

	2001 £	2000 £
Staff costs	2,301,838	1,694,996
Administrative expenses	311,804	252,245
Other operating costs	2,189,617	1,319,152
	4,803,259	3,266,393

3 INTEREST INCOME

	2001 £	2000 £
Interest income on bank deposits	77,000	14,049

4 DIRECTORS AND EMPLOYEES

	2001 £	2000 £
Staff costs during the year were as follows:		
Wages and salaries	1,976,709	1,438,806
Social security costs	172,670	129,594
Pension costs	152,458	126,596
	2,301,837	1,694,996

The average number of persons employed during the year was:	2001 Number	2000 Number
Management	13	13
Other	82	66
	95	79

DIRECTORS AND EMPLOYEES (continued)

Remuneration in respect of directors was as follows:	2001 £	2000 £
Emoluments	435,192	392,415

Directors' remuneration disclosed above include amounts paid to:	2001 £	2000 £
The highest paid director	109,056	99,682

5 TAXATION

The taxation charge is based on the profit for the year and represents:	2001 £	2000 £
Corporation tax at 30% (2000 : 30%)	-	-

There is no tax charge on the results for 2001 and 2000, except as disclosed above, owing to tax losses. At 31 December 2001 there were tax losses of approximately £2,154,000 available for offset against future trading profits.

6 TANGIBLE FIXED ASSETS

	Computers, furniture, fittings, cars & equipment £
Cost	
At 1 January 2001	775,615
Additions	225,100
Disposals	(7,940)
At 31 December 2001	992,775
Depreciation	
At 1 January 2001	207,493
Provided in the year	221,115
Disposed in the year	(7,940)
At 31 December 2001	420,668
Net book amount	
At 31 December 2001	572,107
Net book amount	
At 31 December 2000	568,122

7 DEBTORS

	2001 £	2000 £
Trade debtors	1,183,516	3,149,650
Prepayments and accrued income	79,766	52,001
Other debtors	4,367,427	3,280,102
	5,630,709	6,481,753

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Trade creditors	2,181,321	3,834,701
Pension contributions	13,540	1,045
Accruals	366,866	126,159
Taxation and social security costs	52,147	41,670
Deferred Acquisition Costs & Other creditors	5,139,245	3,891,693
	7,753,119	7,895,268

9 CALL UP SHARE CAPITAL

	2001 £	2000 £
Authorised		
5,000,000 'A' ordinary shares of £1 each	5,000,000	5,000,000
1,000,000 'C' ordinary shares of £1 each	1,000,000	1,000,000
	6,000,000	6,000,000
Allotted		
2,974,061 'A' ordinary shares of £1 each	2,974,061	2,974,061
1,000,000 'C' ordinary shares of £1 each	1,000,000	1,000,000
	3,974,061	3,974,061
Called Up		
Fully Paid		
2,911,561 'A' ordinary shares of £1 each	2,911,561	2,911,561
Partly Paid		
62,500 'A' ordinary shares of £1 each one quarter called up	15,625	15,625
Fully Paid		
1,000,000 'C' ordinary shares of £1 each	1,000,000	1,000,000
	3,927,186	3,927,186

All shares are equity shares, carrying the same right to dividends and priority on a winding up and are non-redeemable.

Both the 'A' ordinary shares and the 'C' ordinary shares have full voting rights except that the 'C' ordinary shareholders have no voting rights in respect of a resolution to amend in any way the directors' duty only to register a transfer of 'A' ordinary shares to a qualifying person.

10 RESERVES

	Profit and loss account £
At 1 January 2001	(3,712,603)
Profit for the year	474,134
At 31 December 2001	(3,238,469)

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £	2000 £
Profit for the financial year	474,134	184,441
Opening shareholders' funds	214,583	30,142
Closing shareholders' funds	688,717	214,583

12 NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £	2000 £
Operating profit	397,134	170,392
Proceeds of insurance claims	(2,111)	(2,343)
Depreciation	221,115	129,915
(Increase)/Decrease in debtors	851,044	(1,742,843)
Increase/(Decrease) in creditors	(142,149)	2,077,906
Net cash outflow from operating activities	1,325,033	633,027

13 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2001 £	Cashflow £	At 31 December 2001 £
Cash at bank and in hand	1,059,976	1,179,044	2,239,020

14 LEASING COMMITMENTS

Operating lease payments amounting to £142,571 (2000 : £127,617) are due within one year. The leases to which these amounts relate expire as follows:

		2001		2000
	Land and Buildings £	Other £	Land and Buildings £	Other £
Operating leases which expire:				
- within two to five years	-	19,288	-	20,497
- over five years	111,442	-	107,120	-
	111,442	19,288	107,120	20,497

There were no other revenue commitments at 31 December 2001 or 31 December 2000.

15 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2001 or 31 December 2000.

16 RELATED PARTIES

During the year, Broker Direct Plc was due £4,471,585 commission from Trafalgar Insurance PLC, a wholly owned subsidiary of Cornhill Insurance PLC, which has a 25% shareholding in Broker Direct Plc.

At the year end a balance of £154,091 was due from Trafalgar Insurance PLC in respect of this commission.

Broker Direct Plc collects insurance premium payments on behalf of Trafalgar Insurance PLC. At the year end, a balance of £2,127,008 was owed to Trafalgar Insurance PLC in respect of these premiums.