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BEAZLEY FURLONGE LIMITED

REPORT AND FINANCIAL STATEMENTS

30 JUNE 2000



BEAZLEY FURLONGE LIMITED

DIRECTORS AND ADVISORS

Directors

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

Secretary

Julia H Kingston

Registered office

1 Aldgate
London
EC3N 1AA

Registered Number: 1893407

Auditors

KPMG Audit plc
8 Salisbury Square
London
EC4Y 8BB

Bankers

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

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 30 June 2000.

Business review and future developments

The principal activity of the company is that of Lloyd's underwriting agents.

The capacity of the managed syndicate, syndicate 623, was £125 million for 2000 (£95 million for 1999).

Profit and appropriations

The results for the year are shown in the profit and loss account on page 6. The directors recommend payment of a final dividend of £175,000 this year (1999: £124,493). The surplus remaining of £23,483 has been transferred to reserves (1999: £126,784).

Directors

The names of the directors who served during the year and at the date of this report are as follows:-

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

Directors' interests

Details of beneficial interests of the directors are shown in Note 16 of the financial statements.

Fixed assets

Details of tangible fixed assets are set out in note 7 to the financial statements.

Charitable donations

During the year the company paid £500 in charitable donations (1999: £10,974).

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT (continued)

Year 2000

The company has not experienced any Year 2000 computer related problems. The directors are confident that the company has sufficient procedures and safeguards in place to ensure that, should such problems arise, the disruption and costs arising will be immaterial to the company's financial position.

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 of the company for that period. In preparing those financial statements the directors are required to:

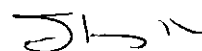
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

KPMG Audit plc have indicated their willingness to continue in office and a resolution to that effect will be put to the members at the Annual General Meeting.

By order of the board



J H Kingston
Secretary

1 Aldgate
London
EC3N 1AA

12 October 2000

BEAZLEY FURLONGE LIMITED

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

We have audited the financial statements on pages 6 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 the company's affairs as at 30 June 2000 and of its profit for the year then ended and have been properly prepared in accordance with the requirements of the Companies Act 1985.

KPMG Audit Plc

KPMG Audit plc
Chartered Accountant
Registered Auditor

12 October 2000

8 Salisbury Square
London
EC4Y 8BB

BEAZLEY FURLONGE LIMITED

PROFIT & LOSS ACCOUNT
YEAR ENDED 30 JUNE 2000

	<u>Note</u>	<u>2000</u> £	<u>1999</u> £
Turnover	2	950,689	979,123
Administrative expenses	3	(706,682)	(701,832)
		244,007	277,291
Other operating income		1,000	44,380
Operating profit		245,007	321,671
Interest receivable		27,627	37,685
Profit on ordinary activities before taxation	3	272,634	359,356
Tax on profit on ordinary activities	5	(74,151)	(108,079)
Profit on ordinary activities after taxation		198,483	251,277
Dividends	6	(175,000)	(124,493)
Retained profit for the year	12	23,483	126,784

The company's turnover and expenses all relate to the continuing operations. There were no recognised gains or losses during the year other than those passing through the profit and loss account. The notes on pages 8 to 17 form part of these financial statements.

BEAZLEY FURLONGE LIMITED

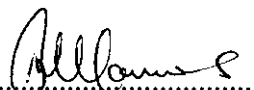
BALANCE SHEET

30 JUNE 2000

	<u>Note</u>	<u>2000</u> £	<u>1999</u> £
Fixed assets			
Tangible assets	7	94,892	155,052
Investments	8	19,922	19,922
Current assets			
Debtors	9	511,145	390,897
Investments		-	8,873
Cash at bank and in hand		619,309	452,146
		1,130,454	851,916
Creditors: amounts falling due within one year	10	(666,285)	(471,390)
Net current assets		464,169	380,526
Net assets		£578,983	£555,500
Capital and reserves			
Called up share capital	11	400,000	400,000
Profit and loss account	12	178,983	155,500
		£578,983	£555,500

The financial statements on pages 6 to 17 were approved by the board of directors on 12 October 2000.

Signed on behalf of
the board of directors


A R Manners

The notes on pages 8 to 17 form part of these financial statements.

BEAZLEY FURLONGE 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.

Turnover

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

Agency salaries represent net retained salaries in respect of one half of the 1999 underwriting account and one half of the 2000 underwriting account (1999: one half of the 1998 underwriting account and one half of the 1999 underwriting account).

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 improvements	Over period of lease

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.

Investments

Investments are shown at cost in the balance sheet.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement as it is a member of a small group, as defined by the Companies Act 1985.

2. Turnover and profit

	<u>2000</u>	<u>1999</u>
	£	£
Underwriting agency salaries	658,878	521,401
1997 (1996) Closed Year of account	291,811	457,722
profit commission		
	£950,689	£979,123

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.

3. Profit on ordinary activities before taxation

	<u>2000</u>	<u>1999</u>
	£	£
Profit on ordinary activities before taxation is stated after charging and crediting the following:-		
Depreciation	60,161	64,893
Auditors' remuneration - audit	12,629	12,250
- other	4,400	4,100
Staff costs	3,610,858	3,401,361
Rental payments under operating leases		
- buildings	139,764	224,376
- motor vehicles	117,668	107,230
	3,945,480	3,814,210
Other costs	320,596	366,361
Recharged to managed syndicate	(3,559,394)	(3,478,739)
	£706,682	£701,832

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors and employees

	<u>2000</u> £	<u>1999</u> £
Staff costs including directors' emoluments		
Salaries	2,968,243	2,785,311
Social security	308,382	273,271
Pension costs	334,233	342,779
	3,610,858	3,401,361
Average number employed including Executive directors	41	41
	<u>2000</u> £	<u>1999</u> £
Total directors' emoluments	1,121,452	1,128,927
Highest paid director	247,139	236,450

No share options were exercisable by the directors in the year.

The aggregate value of company contributions paid to the company pension scheme in respect of directors' qualifying services was £114,000.

	<u>2000</u>	<u>1999</u>
Retirement benefits are accruing to the following number of directors under defined benefit schemes	6	6

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors and employees (continued)

The value of the highest paid director's accrued retirement benefit at the end of the year was £61,900.

Directors and employees of the company who participate on syndicates managed by the company do not pay agency salaries or profit commission on those participations. Information on directors' options is given in Note 16.

5. Taxation

	<u>2000</u>	<u>1999</u>
	£	£
UK corporation tax on:		
Profit on ordinary activities		
at 30% (1999: 30.75%)	77,824	105,517
Adjustment in respect of prior year	(3,673)	2,562
	£74,151	£108,079

The Corporation tax liability for the year has been reduced by £nil (1999: £18,037) as a result of group relief for fellow group undertakings losses.

Provided and unprovided deferred taxation has not been accrued or disclosed as it is considered immaterial.

6. Dividend

	<u>2000</u>	<u>1999</u>
	£	£
Dividends on ordinary shares:-		
Final recommended - £0.4375 per share	175,000	124,493
(1999: £0.311 per share)		
	£175,000	£124,493

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. <u>Tangible fixed assets</u>	Furniture		
	<u>Short leasehold land and buildings</u>	<u>motor vehicles & equipment</u>	<u>Total</u>
Cost	£	£	£
1 July 1999	279,957	267,731	547,688
Additions	-	-	-
30 June 2000	279,957	267,731	547,688
Depreciation			
1 July 1999	134,208	258,428	392,636
Charge for the year	55,991	4,169	60,160
30 June 2000	190,199	262,597	452,796
Net book amount			
30 June 2000	89,758	5,134	94,892
30 June 1999	£145,749	£9,303	£155,052
8. <u>Investments</u>		<u>Cost</u>	<u>Market Value</u>
Other fixed asset investments:-			
Asia Pacific Underwriting Agency.		19,922	19,922

The investment in Asia Pacific Underwriting Agency (APUA) represents the start up costs 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.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Debtors

	<u>2000</u>	<u>1999</u>
	£	£
Amounts owed by group undertakings	437,003	281,838
Other debtors	56,759	96,765
Prepayments and accrued income	17,383	12,294
	£511,145	£390,897

10. Creditors: amounts falling due within one year

	<u>2000</u>	<u>1999</u>
	£	£
Amounts owed to group undertakings	235,000	65,000
Corporation tax	77,824	42,365
Other creditors including taxation and social security	130,486	206,869
Accruals and deferred income	47,975	32,663
Dividend proposed	175,000	124,493
	£666,285	£471,390

11. Share capital

	<u>Authorised</u>	Allotted and <u>paid up</u>
	£	£
Ordinary shares of £1 each		
As at 1st July 1999:-	400,000	400,000
As at 30th June 2000	£400,000	400,000

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Profit and loss account

	<u>2000</u> £	<u>1999</u> £
At 1 July 1999	155,500	28,716
Retained profit for the year	23,483	126,784
At 30 June 2000	£178,983	£155,500

13. Pension commitments

The company 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 Company.

The pension cost charged to the profit and loss account is calculated by an independent qualified actuary, in such a way as to spread the cost of pensions over the employees' working lives with the Company. 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 over funding. 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 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Pension commitments (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)
Total for retirement benefits	<u>17.1</u>
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 £334,233 (1999: £342,779), representing contributions payable by the Company, was recharged in the appropriate proportion to the managed syndicate.

The deferred tax implications of the pension scheme are not considered material.

14. Ultimate holding company

The ultimate holding company is Beazley Furlonge Holdings Limited, a company incorporated in England. The group financial statements can be obtained from the Registered Office address given on page 1 of these accounts.

15. Contingent liabilities and financial commitments

The company entered into a leasehold tenancy agreement on 13 March 1997 in respect of One Aldgate.

The company was committed to make rental payments amounting in the aggregate of £279,822 in respect of the remaining 21 month period of the tenancy (1999: £439,720 in respect of the remaining 33 months).

Payable within one year:	159,898
Payable after more than one year:	119,924

£279,822

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Directors' interests

The beneficial interests of the directors who have served throughout the year unless otherwise indicated in the ordinary share capital of the ultimate holding company as at 1 July 1999 and 30 June 2000 were as follows:-

As at 1st July 1999 and 30th June 2000

	"D"			
	Ordinary	Convertible	Options	Options
	Shares	Shares	"D"	Convertible
	50p each	50p each	Shares	Shares
				50p each
A F Beazley	162,817	117,241	-	-
N H Furlonge	101,839	-	-	-
N P Maidment	11,266	55,941	27,500	27,500
J G Gray	8,418	61,582	35,000	35,000
J G B Rowell	30,127	73,000	35,000	35,000
A R Manners	3,367	9,369	14,000	14,000
J D Sargent	6,513	3,641	-	-
G P Blunden	2,171	884	-	-
T Sullivan	-	-	-	-
K McHugh	-	-	-	-

Holdings of Deferred Shares of 50p each:-

	30th June	1st July
	2000	1999
A F Beazley	-	311,955
N H Furlonge	-	423,161
N P Maidment	-	2,793
J G Gray	-	-
J G B Rowell	-	36,873
A R Manners	-	15,264
J D Sargent	-	10,846
G P Blunden	-	3,945
T Sullivan	-	-
K McHugh	-	-

Tom Sullivan and Kevin McHugh are 50% partners in T&K Inc, a limited partnership incorporated in Delaware. T&K Inc has interests in two related companies.

- a) T&K Inc owns 100% of Speciality 005 Limited which controls 17% of the voting rights of BFH.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

- b) T&K Inc owns 67.7% of the voting rights Speciality 004 Ltd which controls 33% of the voting rights of BFH.

16. Directors' interests (continued)

No rights to subscribe for shares in the company or another body corporate in the same group, was, during the financial year, granted to or exercised by the Directors or a member of its immediate family.

17. Reconciliation of movements in shareholders' funds

	<u>2000</u>	<u>1999</u>
	£	£
Profit for the financial year	198,483	251,277
Dividends	(175,000)	(124,493)
	23,483	126,784
Opening shareholders' funds	555,500	428,716
Closing shareholders' funds	578,983	£555,000

18. Related Party Transactions

The Company's ultimate parent undertaking, Beazley Furlonge Holdings Limited, prepares consolidated financial statements which are publicly available. Accordingly, the Company has taken advantage of an exemption in Financial Reporting Standard 8 – 'Related Party Transactions' and does not disclose transactions with other entities in the Group.