

BEAZLEY FURLONGE LIMITED
REPORT AND FINANCIAL STATEMENTS

30 JUNE 2001



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

Secretary

Sian A Coope

Registered office

One Aldgate
London
EC3N 1AA

Registered Number: 1893407

Auditors

KPMG Audit plc
8 Salisbury Square
London
EC4Y 8BB

Bankers

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

BEAZLEY FURLONGE LIMITED

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Beazley Furlonge Limited, will be held at One Aldgate, London EC3N 1AA on 29 November 2001 for the following purposes:

Ordinary business

1. To receive, approve and adopt the financial statements of the company for the year ended 30 June 2001 together with the directors' and auditor's report thereon.
2. To reappoint KPMG Audit plc as auditor and to authorise the directors to fix the auditor's remuneration.
3. To transact any other ordinary business.

On behalf of the board



A R Manners
Director

27 November 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 LIMITED

DIRECTORS' REPORT

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

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 £215 million for 2001 (£125 million for 2000).

Profit and appropriations

The results for the year are shown in the profit and loss account on page 6. The directors do not recommend the payment of a final dividend this year (2000: £175,000). The surplus remaining of £74,160 has been transferred to reserves (2000: £23,483).

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	
Thomas F Sullivan	(resigned 27 June 2001)
Kevin J McHugh	(resigned 27 June 2001)

Directors' interests

None of the directors have an interest in the share capital of the company. The interests of the directors in the share capital of the ultimate parent undertaking, Beazley Furlonge Group Limited, are disclosed in that company's accounts. Copies of those accounts may be obtained from the registered office of this company, as set out on page 1.

Fixed assets

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

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT (continued)

Charitable donations

During the year the company paid £5,400 in charitable donations (2000: £500).

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.

On behalf of the board



A R Manners
Director

One Aldgate
London
EC3N 1AA

27 November 2001

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 16.

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.

Qualified opinion arising from omission of disclosure information required under FRS 17" Retirement benefits"

As explained in note 13 "Pension costs" the financial statements do not contain the full transitional disclosure requirements as required under FRS 17. In the absence of the relevant actuarial information, it is not practicable for us to provide the missing disclosure.

Opinion

Except for the failure to fully disclose this required transitional information, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit plc
Chartered Accountant
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

27 November 2001

BEAZLEY FURLONGE LIMITED

PROFIT & LOSS ACCOUNT
YEAR ENDED 30 JUNE 2001

	<u>Note</u>	<u>2001</u> £	<u>2000</u> £
Turnover	2	1,171,191	950,689
Administrative expenses	3	(1,079,004)	(706,682)
		92,187	244,007
Other operating income		-	1,000
Operating profit		92,187	245,007
Interest receivable		28,557	27,627
Profit on ordinary activities before taxation	3	120,744	272,634
Tax on profit on ordinary activities	5	(46,584)	(74,151)
Profit on ordinary activities after taxation		74,160	198,483
Dividends	6	-	(175,000)
Retained profit for the year	12	74,160	23,483

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 16 form part of these financial statements.

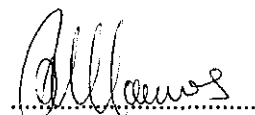
BEAZLEY FURLONGE LIMITED

BALANCE SHEET
30 JUNE 2001

	<u>Note</u>	<u>2001</u> £	<u>2000</u> £
Fixed assets			
Tangible assets	7	36,481	94,892
Investments	8	19,922	19,922
Current assets			
Debtors	9	92,381	511,145
Investments		-	-
Cash at bank and in hand		654,478	619,309
		746,859	1,130,454
Creditors: amounts falling due within one year	10	(150,119)	(666,285)
Net current assets		596,740	464,169
Net assets		653,143	578,983
Capital and reserves			
Called up share capital	11	400,000	400,000
Profit and loss account	12	253,143	178,983
Shareholder's funds		653,143	578,983

The financial statements on pages 6 to 17 were approved by the board of directors on 27 November 2001.

Signed on behalf of
the board of directors



A R Manners

The notes on pages 8 to 16 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 2000 underwriting account and one half of the 2001 underwriting account (2000: one half of the 1999 underwriting account and one half of the 2000 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	33⅓ % 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>2001</u>	<u>2000</u>
	£	£
Underwriting agency salaries	1,022,033	658,878
1998 (1997) Closed Year of account	149,158	291,811
profit commission		
	1,171,191	950,689

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>2001</u>	<u>2000</u>
	£	£
Profit on ordinary activities before taxation is stated after charging and crediting the following:-		
Depreciation	58,411	60,161
Auditors' remuneration - audit	12,530	12,629
- other	5,725	4,400
Staff costs	4,054,623	3,610,858
Rental payments under operating leases		
- buildings	166,529	139,764
- motor vehicles	110,033	117,668
	4,407,851	3,945,480
Other costs	1,187,586	320,596
Recharged to managed syndicate	(4,516,433)	(3,559,394)
	1,079,004	706,682

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors and employees

	<u>2001</u> £	<u>2000</u> £
Staff costs including directors' emoluments		
Salaries	3,340,661	2,968,243
Social security	344,844	308,382
Pension costs	369,118	334,233
	4,054,623	3,610,858
Average number employed including Executive directors	45	41
	<u>2001</u> £	<u>2000</u> £
Total directors' emoluments	1,201,110	1,121,452
Highest paid director	270,981	247,139

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 £126,061 (1999 - £114,000).

	<u>2001</u>	<u>Number of directors</u> <u>2000</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 £82,988 (1999 - £61,400).

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.

5. Taxation

	<u>2001</u>	<u>2000</u>
	£	£
UK corporation tax on:		
Profit on ordinary activities		
at 30% (2000: 30%)	44,275	77,824
Adjustment in respect of prior year	2,309	(3,673)
	46,584	74,151

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

6. Dividends

	<u>2001</u>	<u>2000</u>
	£	£
Dividends on ordinary shares:-		
Final recommended - £ Nil per share (2000:		
£0.4375 per share)	-	175,000

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tangible fixed assets

	<u>Short leasehold land and buildings</u>	<u>Furniture, Motor vehicles & equipment</u>	<u>Total</u>
Cost	£	£	£
At 1 July 2000	279,957	267,731	547,688
Additions	-	-	-
At 30 June 2001	279,957	267,731	547,688
Depreciation			
At 1 July 2000	190,199	262,597	452,796
Charge for the year	55,991	2,420	58,411
At 30 June 2001	246,190	265,017	511,207
Net book amount			
At 30 June 2001	33,767	2,714	36,481
At 30 June 2000	89,758	5,134	94,892

8. Investments

	<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>2001</u>	<u>2000</u>
	£	£
Amounts owed by group undertakings	22,274	437,003
Other debtors	63,328	56,759
Prepayments and accrued income	6,779	17,383
	92,381	511,145

10. Creditors: amounts falling due within one year

	<u>2001</u>	<u>2000</u>
	£	£
Bank overdraft	3,001	-
Amounts owed to group undertakings	-	235,000
Corporation tax	46,742	77,824
Other creditors including taxation and social security	26,433	130,486
Accruals and deferred income	73,943	47,975
Dividend proposed	-	175,000
	150,119	666,285

11. Share capital

	<u>Authorised</u>	Allotted and paid up
	£	£
Ordinary shares of £1 each		
At 1 July 2000	400,000	400,000
At 30 June 2001	400,000	400,000

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Profit and loss account

	<u>2001</u> £	<u>2000</u> £
At 1 July 2000	178,983	155,500
Retained profit for the year	74,160	23,483
At 30 June 2001	253,143	178,983

13. Pension commitments

The information set out below reflects the most recent actuarial valuation carried out on the Beazley Furlonge Pension Scheme (the Beazley Scheme). FRS 17 requires disclosure of additional information that has not been prepared as the company is in the process of re-organising the Beazley Scheme. It is proposed to transfer the Beazley Scheme to the Lloyd's Superannuation Fund. The benefits offered to the employees will not be affected. Once the transfer of the Beazley Scheme has been completed, a full valuation of the assets and liabilities will be carried out by the Lloyd's Superannuation Fund Actuary. Full disclosure will be made in the future.

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 £369,118 (2000: £334,233), 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 Group 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 £119,924 in respect of the remaining 9 month period of the tenancy (2000: £279,822 in respect of the remaining 21 months).

Payable within one year:	£ 119,924
	<u><u> </u></u>

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Reconciliation of movements in shareholders' funds

	<u>2001</u>	<u>2000</u>
	£	£
Profit for the financial year	74,160	198,483
Dividends	-	(175,000)
	74,160	23,483
Opening shareholders' funds	578,983	555,500
Closing shareholders' funds	653,143	578,983

17. Related Party Transactions

The Company's ultimate parent undertaking, Beazley Furlonge Group 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.

18. Parent Undertaking and Controlling Party

The ultimate parent undertaking is Beazley Furlonge Group Limited. It has included the company in its group accounts, copies of which are available from its registered office: One Aldgate, London, EC3N 1AA.

19. Post Balance Sheet Event

The terrorist attack on the World Trade Centre in New York on 11 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.