

BEAZLEY FURLONGE LIMITED
REPORT AND FINANCIAL STATEMENTS

30 JUNE 2002



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
Jonathon G W Agnew (appointed 12 March 2002)

Secretary

S A Coope

Registered office

1 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

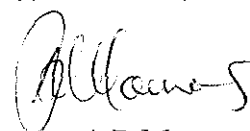
NOTICE OF MEETING

Notice has been given of the Extraordinary General Meeting of Beazley Furlonge Limited, will be held at 1 Aldgate, London EC3N 1AA on 6 November 2002 for the following purposes:

Ordinary business

1. To receive, approve and adopt the financial statements of the company for the year ended 30 June 2002 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

7 November 2002

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 2002.

Business review and future developments

The principal activity of the company is that of a Lloyd's managing agent.

The capacity of the managed syndicates, syndicate 623 and syndicate 2623, was £325 million and £78 million respectively for 2002 (£215 million and £Nil for 2001).

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 (2001: £Nil). The surplus remaining of £44,505 has been transferred to reserves (2001: £74,160).

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
Jonathon G W Agnew (appointed 12 March 2002)

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 6 to the financial statements.

BEAZLEY FURLONGE LIMITED

DIRECTORS' REPORT (continued)

Charitable donations

During the year the company paid £10 in charitable donations (2001: £5,400).

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:

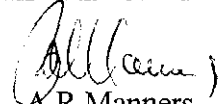
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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 Extraordinary General Meeting.

On behalf of the board


A R Manners
Director

1 Aldgate
London
EC3N 1AA

7 November 2002

BEAZLEY FURLONGE LIMITED

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF
BEAZLEY FURLONGE LIMITED

We have audited the financial statements on pages 6 to 20.

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 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2002 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
Chartered Accountant
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

7 November 2002

BEAZLEY FURLONGE LIMITED

PROFIT & LOSS ACCOUNT
YEAR ENDED 30 JUNE 2002

	<u>Note</u>	<u>2002</u> £	<u>2001</u> £
Turnover	2	2,106,138	1,171,191
Administrative expenses	3	(1,950,772)	(1,079,004)
		155,366	92,187
Other operating income		101	-
Operating profit		155,467	92,187
Interest receivable		23,619	28,557
Profit on ordinary activities before taxation		179,086	120,744
Tax on profit on ordinary activities	5	(134,581)	(45,824)
Profit on ordinary activities after taxation		44,505	74,920
Retained profit for the year	11	44,505	74,920

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 20 form part of these financial statements.

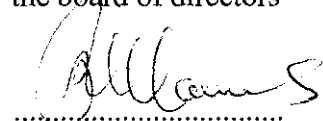
BEAZLEY FURLONGE LIMITED

BALANCE SHEET
30 JUNE 2002

	<u>Note</u>	<u>2002</u> £	<u>2001</u> £
Fixed assets			
Tangible assets	6	-	36,481
Investments	7	19,922	19,922
Current assets			
Debtors	8	384,828	109,103
Investments		-	-
Cash at bank and in hand		728,443	654,478
		1,113,271	763,581
Creditors: amounts falling due within one year	9	(418,823)	(150,119)
Net current assets		694,448	613,462
Net assets		714,370	669,865
Capital and reserves			
Called up share capital	10	400,000	400,000
Profit and loss account	11	314,370	269,865
		714,370	669,865

The financial statements on pages 6 to 20 were approved by the board of directors on 6 November 2002.

Signed on behalf of
the board of directors



A R Manners

The notes on pages 8 to 20 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 in accordance with applicable accounting standards and under the historical cost accounting rules. A summary of the more important policies is set out below. These have been applied consistently except that the company has adopted FRS 17 (Retirement Benefits), FRS 18 (Accounting Policies) and FRS 19 (Deferred Tax) during this year. The adoption of FRS 17 and FRS 18 has not had a material impact. The impact of FRS 19 is detailed in notes 5 and 8.

Turnover

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

Agency salaries represent net retained salaries in respect of one half of the 2001 underwriting account and one half of the 2002 underwriting account (2001: one half of the 2000 underwriting account and one half of the 2001 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

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date. In previous years financial statements, provision was only made for deferred tax on timing differences that were considered likely to reverse in the foreseeable future. This change in accounting policy has been made to comply with the new Financial Reporting Standard No.19 (Deferred Tax).

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

Investments

Investments are shown at cost in the balance sheet.

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own consolidated financial statements.

2. Turnover and profit

	<u>2002</u> £	<u>2001</u> £
Underwriting agency salaries	1,614,329	1,022,033
1999 (1998) Closed Year of account profit commission	491,809	149,158
	2,106,138	1,171,191

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>2002</u> £	<u>2001</u> £
Profit on ordinary activities before taxation is stated after charging and crediting the following:-		
Depreciation	45,271	58,411
Auditors' remuneration - audit	12,000	12,530
- other	13,852	5,725
Staff costs	5,990,318	4,054,623
Rental payments under operating leases		
- buildings	151,945	166,529
- motor vehicles	143,483	110,033
	6,356,869	4,407,851
Other costs	2,506,242	1,187,586
Recharged to managed syndicate	(6,912,339)	(4,516,433)
	1,950,772	1,079,004

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Directors and employees

	<u>2002</u> £	<u>2001</u> £
Staff costs including directors' emoluments		
Salaries	4,862,851	3,340,661
Social security	503,067	344,844
Pension costs	624,400	369,118
	5,990,318	4,054,623
Average number employed including Executive directors	58	45
	<u>2002</u> £	<u>2001</u> £
Total directors' emoluments	1,348,194	1,201,110
Highest paid director	313,887	270,981

The aggregate value of company contributions paid to the company pension scheme in respect of directors' qualifying services was £135,364 (2000: £126,061).

	<u>Number of directors</u>	
	<u>2002</u>	<u>2001</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 £98,165.

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

	2002 £	2001 £
<i>UK corporation tax on:</i>		
Profit on ordinary activities at 30% (2001: 30%)	138,646	44,275
Adjustment in respect of prior year	-	2,309
Deferred tax (See note 8)	(4,065)	(760)
	134,581	45,824

Factors affecting the tax charge for the current period

The corporation tax liability for the year is higher than the standard rate of corporation tax in the UK due to the differences explained below;

	2002 £	2001 £
Profit on ordinary activities before tax	179,086	120,764
Current tax at 30% (2001 30%)	53,726	36,223
<i>Effect of;</i>		
Expenses not deductible for tax	78,268	2,322
Capital allowances for the period lower than depreciation	6,652	5,729
	138,646	44,275

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tangible fixed assets

	<u>Short leasehold land and buildings</u>	<u>Furniture Motor vehicles & equipment</u>	<u>Total</u>
Cost	£	£	£
At 1 July 2001	279,957	267,731	547,688
Additions	-	-	-
At 30 June 2002	279,957	267,731	547,688
Depreciation			
At 1 July 2001	246,190	265,017	511,207
Charge for the year	33,767	2,714	36,481
At 30 June 2002	279,957	267,731	547,688
Net book amount			
At 30 June 2001	33,767	2,714	36,481
At 30 June 2002	-	-	-

7. 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)

8. Debtors

	<u>2002</u> £	<u>2001</u> £
Amounts owed by group undertakings	247,978	22,274
Other debtors	126,833	80,050
Prepayments and accrued income	10,017	6,779
	384,828	109,103

Included in other debtors is a deferred tax asset of £20,787 (2001; £16,722), which relates to the difference between the tax written down value of fixed assets and their carrying value, £69,391 (2001; £55,907).

9. Creditors: amounts falling due within one year

	<u>2002</u> £	<u>2001</u> £
Bank overdraft	-	3,001
Amounts owed to group undertakings	-	-
Corporation tax	138,438	46,742
Other creditors including taxation and social security	180,639	26,433
Accruals and deferred income	99,746	73,943
	418,823	150,119

10. Share capital

	<u>Authorised</u> £	Allotted and <u>paid up</u> £
Ordinary shares of £1 each		
At 1 July 2001	400,000	400,000
At 30 June 2002	400,000	400,000

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Profit and loss account

	<u>2002</u> £	<u>2001</u> £
At 1 July 2001	269,865	194,945
Retained profit for the year	44,505	74,920
At 30 June 2002	£314,370	£269,865

12. Pension commitments

Beazley Furlonge Limited operates a pension scheme ('the Beazley Furlonge Pension Scheme') providing benefits based on final pensionable pay, with contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary using the projected unit method and the most recent valuation was at 10 August 2002. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. The investment return used was 7.0%, the rate of earning increased used was 4.5% and the rate of pension increase used was 2.5%.

The most recent actuarial valuation showed that the market value of the scheme's assets was £3,151,000 at 10 August 2002 and that the actuarial value of those assets represented 78% of the benefits that had accrued to members on an ongoing basis, after allowing for expected future increases in earnings. The contributions of the company have been estimated at 20.1% of earnings. The pension charge for the period was £565,000 (2001:£350,000). Each year substantially all of the pension costs are recharged to Syndicate 623.

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under Financial Reporting Standard 17 'Retirement benefits' the following transitional disclosures are required.

The valuation was calculated by the actuary on an Financial Reporting Standard 17 "Retirement benefits", basis as at 30 June 2002 and 30 June 2001.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Pension Commitments (continued)

The major assumptions used in these valuations were:

	30 June 2001	30 June 2002
Rate of increase in salaries	4.5%	4.5%
Rate of increase in pensions	2.5%	2.5%
Discount rate applied to scheme liabilities	6.0%	6.0%
Inflation assumption	2.5%	2.5%

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:

	Long term rate of return 30 June 2001	Value at 30 June 2001 £000	Long term rate of return 30 June 2002	Value at 30 June 2002 £000
Equities	7.3%	3,254	7.3%	3,133
Bonds	5.3%	421	5.3%	563
Fair value of assets		3,675		3,696
Present value of scheme's liabilities		(4,309)		(5,309)
Gross pension liability		(634)		(1,613)
Deferred tax asset arising on pension liability		190		484
Net pension liability		(444)		(1,129)

The amount of this net pension liability would have a consequential effect on the Company's reserves.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Pension Commitments (continued)

Movement in deficit during the year

	Value at 30 June 2002 £000
Deficit) in the scheme at beginning of year	(621)
Current service cost	(710)
Contributions paid	565
Past service cost	-
Other finance income/cost	19
Actuarial gain/loss	(866)
Deficit in the scheme at end of year	(1,613)

As allowed by Financial Reporting Standard 17 "Retirement Benefits", the Company has not provided comparative information for the year ended 30 June 2001. If Financial Reporting Standard 17 had been fully adopted in these financial statements the pension costs for the Scheme would have been as disclosed below.

Analysis of other pension costs charged in arriving at operating profit

	Value at 30 June 2002 £000
Current service cost	710
-Past service cost	-
Previously unrecognised surplus deducted from past service cost	-
Gains/losses on settlements or curtailments	-
Previously unrecognised surplus deducted from the settlement or curtailment losses	-
	710

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Pension Commitments (continued)

Analysis of amounts included in other finance income/costs

	Value at 30 June 2002 £000
Expected return on pension scheme assets	277
Interest on pension scheme liabilities	(258)
	19

Analysis of amount which would have been recognised in statement of total recognised gains and losses

	Value at 30 June 2002 £000
Actual return less expected return on scheme assets	(890)
Experience gains arising on scheme liabilities	24
Changes in assumptions underlying the present value of scheme liabilities	-
Actuarial loss recognised in statement of total recognised gains and losses	(866)

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Pension Commitments (continued)

From 1 April to 10 August 2002, no benefits accrued under the scheme. During this period, Beazley Furlonge Limited participated in the Lloyd's Superannuation Fund ('LSF') and employees accrued benefits under the LSF. Beazley Furlonge Limited terminated its participation in the LSF on 10 August 2002. Beazley Furlonge Limited has confirmed to those of its employees who participated in the LSF that they will be granted continuous pensionable service in the Scheme in respect of the period of participation in the LSF. The liability in respect of this period of service is not included in the actuarial valuation report referred to above, but is included in the FRS 17 valuation at 30 June 2002. The market value of the estimated transfer value at that date was included in the market value of the Scheme's assets in the FRS 17 valuation. The cost to the Scheme of providing continuous service using the actuarial valuation basis has been estimated at £705,000 as at 10 August 2002. The proposed transfer payment from the LSF has not yet been confirmed but the trustees of the LSF have indicated that it could be in the region of £180,000. The directors of Beazley Furlonge Limited are in discussion with the trustees of the LSF to determine the amount required to be transferred. In anticipation of any potential shortfall in the expected transfer amount requested from the trustees of the LSF, Beazley Furlonge Limited has agreed with the trustees of the Scheme to make three annual contributions of £175,000 to the Scheme. The first such payment was made in October 2002. To the extent that assets received from the LSF trustees exceed £180,000, future annual contributions will be adjusted accordingly. In addition to the three annual contributions referred to above, Beazley Furlonge Limited has agreed to make a special contribution to the Scheme of £250,000. The contribution was paid in October 2002. The Directors of Beazley Furlonge Limited consider that all of these payments will be proper expenses for the 2001 and 2002 years of account of Syndicate 623 and will be recharged accordingly. The impact of the shortfall on the FRS 17 valuation would be to reduce the market value of the Scheme's assets at 30 June 2002 by up to £470,000.

13. 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.

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Contingent liabilities and financial commitments

The company entered into a leasehold tenancy agreement on 11 January 2002 in respect of One Aldgate, replacing an old lease on the building, which expired in March 2002. The company was committed to make minimum rental payments amounting in the aggregate to £7,733,288 in respect of the remaining 12 year period of the tenancy (2001 - £119,924 in respect of the remaining 9 months, 2000 - £279,822 in respect of the remaining 21 months of the old lease).

	2002 £	2001 £
Payable within one year:	557,288	119,924
Payable between two and five years:	3,270,000	-
Payable after more than five year:	3,906,000	-

The Company incurred certain expenses relating to a capital raising exercise in the year ended 30 June 2002. There is uncertainty as to whether £179,142 of additional costs will become payable following the Placing and therefore these costs are not reflected in the financial information

BEAZLEY FURLONGE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Reconciliation of movements in shareholders' funds

	<u>2002</u> £	<u>2001</u> £
Profit for the financial year	44,505	74,920
Dividends	-	-
	44,505	74,920
Opening shareholders' funds	669,865	594,945
Closing shareholders' funds	714,370	669,865

16. 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.

BEAZLEY FURLONGE LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 JUNE 2002

(for internal use only and not forming part of the statutory accounts)

	2002	2001
Income:	£	£
Agency salaries	1,614,329	1,022,033
Profit commission	491,809	149,158
Deposit interest	23,619	28,557
Other income	101	-
	2,129,858	1,199,748
Expenses:		
Directors' salaries	153,186	134,421
Non-exec directors' fees	29,732	68,657
Salaries, pensions, NI contributions	64,412	46,585
Rent, rates, light and heat	55,226	28,751
Stationery & office supplies	3,826	1,795
Publicity	1,908	2,304
Telephone & postage	1,646	2,119
Insurance	32,296	19,340
Conference expenses	33	292
Travelling and entertaining	42,799	53,495
Car expenses	1,549	1,913
Subscriptions and donations	30,210	7,259
Repairs and maintenance	166	2,025
Staff welfare	28,411	15,531
Legal and professional	706,643	6,841
Computer expenses	33	224
Accounting services	45,466	37,331
Audit, taxation and advice	12,000	18,255
Bank interest and charges	860	944
General expenses	5,832	3,445
VAT irrecoverable	12,285	4,545
Depreciation & amortisation including profit on sale	45,271	58,411
Management charge - BFH Ltd & BFG Ltd.	649,424	576,000
Profit commission payments	61,037	44,748
	1,984,251	1,135,231
Expenses recharged to managed syndicate	(33,479)	(56,227)
	1,950,772	1,079,004
Profit for the year	179,086	120,744
Taxation	(134,581)	(45,824)
	44,505	74,920
Profit for year after tax		
Dividends proposed/paid	-	-
	44,505	74,920
Retained profit		