

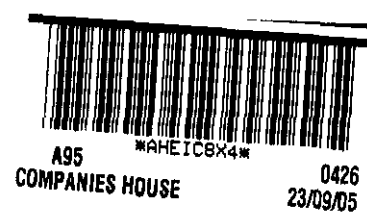
# **Walsham Investment Limited**

**Financial statements for the year ended**

**31 December 2004**

**together with directors' report**

**Registered number: 4076521**



## **Directors' report**

**For the year ended 31 December 2004**

### **Financial Statements**

The directors present their report and financial statements of the company for the year ended 31 December 2004.

### **Principal activities**

The principal activity of the company is the management of its own investment portfolio. The directors expect to continue this activity for the foreseeable future.

### **Financial results and dividends**

The results for the year and the transfer to reserves are shown on page 3.

The directors are proposing to pay a dividend of £20,000 (2003 - Nil) per share, amounting to £2,000,000 (2003 - Nil).

### **Statement of directors responsibilities**

United Kingdom 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 at the end of the financial year and of the profit and 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 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal controls, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Directors**

The directors who held office during the year were:

Mr W J Brown - Chairman

Mr J A Brown

Mr R Brown

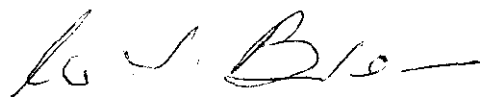
Mr B C Gordon

The directors have no beneficial interest in the capital of the company. The directors interests in the shares of the ultimate holding company Walsham Brothers & Co. Limited can be seen in that company's accounts.

### **Auditors**

Deloitte & Touche LLP have expressed their willingness to continue in office and a resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

This report was approved by the Board on 29 June 2005



W J Brown

Director

## **Independent auditors' report to the members of Walsham Investment Limited**

We have audited the financial statements of Walsham Investment Limited for the year ended to 31 December 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes numbered 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

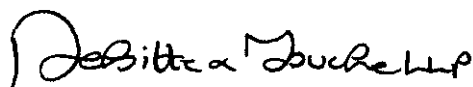
### **Basis of audit opinion**

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 affairs of the company at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Deloitte & Touche LLP**

**Chartered Accountants and Registered Auditors**

London

29 June 2005

## Profit and loss account

For the year ended 31 December 2004

|                                                 | Notes | 2004<br>£   | 2003<br>£ |
|-------------------------------------------------|-------|-------------|-----------|
| Turnover                                        | 2     | -           | -         |
| Net investment return                           |       | 2,074,953   | 215,052   |
| Administrative expenses                         |       | (133,383)   | (129,113) |
| Profit on ordinary activities before taxation   | 4     | 1,941,570   | 85,939    |
| Taxation                                        | 5     | 40,015      | (21,795)  |
| Profit on ordinary activities after tax         |       | 1,981,585   | 64,144    |
| Dividends                                       | 6     | (2,000,000) | -         |
| Retained (loss) / profit for the financial year | 14    | (18,415)    | 64,144    |

All amounts derive from continuing operations.

## Statement of total recognised gains and losses

For the year ended 31 December 2004

|                                                 | Notes | 2004<br>£ | 2003<br>£ |
|-------------------------------------------------|-------|-----------|-----------|
| Retained (loss) / profit for the financial year |       | (18,415)  | 64,144    |
| Revaluation of listed fixed asset investments   |       | 85,125    | 35,453    |
| Prior year adjustment                           | 14    | -         | 9,218     |
| Total recognised gains for the financial year   |       | 66,710    | 108,815   |

The notes on pages 6 to 10 form an integral part of these financial statements

## Balance sheet

As at 31 December 2004

|                                                      | Notes | 2004<br>£        | 2003<br>£        |
|------------------------------------------------------|-------|------------------|------------------|
| <b>Fixed assets</b>                                  |       |                  |                  |
| Investment in subsidiary undertaking                 | 7     | 100              | 100              |
| Other investments                                    | 8     | 7,175,892        | 6,529,522        |
|                                                      |       | <u>7,175,992</u> | <u>6,529,622</u> |
| <b>Current assets</b>                                |       |                  |                  |
| Debtors                                              |       | 2,010,225        | 19,005           |
| Cash at bank and in hand                             |       | 98,481           | 4,350            |
| Other debtors                                        | 9     | 40,015           | -                |
|                                                      |       | <u>2,148,721</u> | <u>23,355</u>    |
| <b>Net current assets</b>                            |       |                  |                  |
|                                                      |       | <u>2,148,721</u> | <u>23,355</u>    |
| <b>Creditors: amount falling due within one year</b> | 10    | (2,000,000)      | -                |
| <b>Creditors: amount falling due after one year</b>  | 11    | (7,156,041)      | (6,451,367)      |
| <b>Accruals and deferred income</b>                  | 12    | (1,762)          | (1,410)          |
|                                                      |       | <u>166,910</u>   | <u>100,200</u>   |
| <b>Total assets less liabilities</b>                 |       |                  |                  |
|                                                      |       | <u>166,910</u>   | <u>100,200</u>   |
| <b>Capital and reserves</b>                          |       |                  |                  |
| Called up share capital                              | 13    | 100              | 100              |
| Profit and loss account                              | 14    | 37,014           | 55,429           |
| Revaluation reserve                                  | 14    | 129,796          | 44,671           |
|                                                      |       | <u>166,910</u>   | <u>100,200</u>   |
| <b>Equity shareholders' funds</b>                    |       |                  |                  |
|                                                      |       | <u>166,910</u>   | <u>100,200</u>   |

The notes on pages 6 to 10 form an integral part of these financial statements

The financial statements on pages 3 to 10 were approved by the Board on 29 June 2005



W J Brown

Director

## Cash flow statement

For the year ended 31 December 2004

|                                              | Notes | 2004<br>£        | 2003<br>£        |
|----------------------------------------------|-------|------------------|------------------|
| Net cash inflow from operating activities    | 16    | <u>655,376</u>   | <u>206,045</u>   |
| Taxation                                     |       |                  |                  |
| Charge for group relief                      |       | -                | (21,795)         |
| Capital expenditure and financial investment |       |                  |                  |
| Acquisition of fixed asset investments       |       | (561,245)        | (180,000)        |
|                                              |       | <u>(561,245)</u> | <u>(201,795)</u> |
|                                              |       |                  |                  |
| Increase in cash in the year                 |       | <u>94,131</u>    | <u>4,250</u>     |

# Notes to the financial statements

For the year ended 31 December 2004

## 1 Accounting policies

The principal accounting policies, which have all been applied consistently throughout the period covered by this report, are summarised below.

### a) Accounting convention

The financial statements are prepared under the historic cost convention, modified by the revaluation of certain investments, and in accordance with applicable United Kingdom law and accounting standards.

### b) Fixed asset investments

The value of fixed asset investments is stated in the financial statements on the following basis:

- (i) Listed investments are stated at closing middle market price on recognised stock exchanges; and
- (ii) Unlisted investments are stated at cost less provision for permanent diminution in value.

### c) Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements.

## 2 Turnover

Due to the nature of its activities the company does not have a turnover.

## 3 Employees

The company has no employees other than its directors, who received no remuneration.

## 4 Profit / (loss) on ordinary activities before taxation

Profit / (loss) on ordinary activities before taxation is stated after charging

|                                         | 2004<br>£ | 2003<br>£ |
|-----------------------------------------|-----------|-----------|
| Auditors' remuneration - audit services | 1,500     | 1,200     |

# Notes to the financial statements (continued)

For the year ended 31 December 2004

## 5 Taxation

|                                                                 | 2004<br>£ | 2003<br>£ |
|-----------------------------------------------------------------|-----------|-----------|
| (a) Analysis of tax charge in year                              |           |           |
| UK corporation tax at 30%                                       | -         | -         |
| Charge for group relief                                         | -         | 21,795    |
| Current tax charge for the year                                 | -         | 21,795    |
| Movements in deferred tax provision                             | (40,115)  | -         |
| Tax (credit) / charge on (loss) / profit on ordinary activities | (40,115)  | 21,795    |

## (b) Factors affecting tax charge for current year

The tax charge for the current year is £Nil (2003 - £21,795).

|                                                   | 2004<br>£ | 2003<br>£ |
|---------------------------------------------------|-----------|-----------|
| The differences are explained below:              |           |           |
| (Loss) / profit on ordinary activities before tax | 1,941,570 | 85,939    |
| Tax at 30% thereon                                | 582,471   | 25,782    |
| Effects of:                                       |           |           |
| Disallowable expenses                             | -         | -         |
| UK dividend income                                | (622,486) | (3,150)   |
| Movements in deferred tax provision               | 40,015    | -         |
| Tax losses utilised                               | -         | (837)     |
| Current tax charge for the year                   | -         | 21,795    |

## (c) Factors that may affect future tax charges

A deferred tax asset has been recognised in respect of timing differences relating to unused trading losses as it is expected that there will be future taxable profits which will allow this asset to be recovered.

## 6 Dividends on equity shares paid and proposed

|                               | 2004<br>£ | 2003<br>£ |
|-------------------------------|-----------|-----------|
| Dividends in respect of 2004: |           |           |
| Ordinary shares               |           |           |
| Interim dividend - proposed   | 2,000,000 | -         |

## 7 Investment in subsidiary undertaking

|                           | 2004<br>£ | 2003<br>£ |
|---------------------------|-----------|-----------|
| 1 January and 31 December | 100       | 100       |

The company holds 100% of the issued share capital of Walsham Corporate Capital Limited, a company incorporated in Great Britain and registered in England and Wales. Advantage has been taken of the exemption for wholly owned subsidiaries not to produce group accounts

# Notes to the financial statements (continued)

For the year ended 31 December 2004

## 8 Other investments

|                                             | 2004<br>£        | 2003<br>£        |
|---------------------------------------------|------------------|------------------|
| <b>Listed investments - at market value</b> |                  |                  |
| 1 January                                   | 853,702          | 818,249          |
| Unrealised gains                            | 85,125           | 35,453           |
| <b>31 December</b>                          | <b>938,827</b>   | <b>853,702</b>   |
| <b>Unlisted investments</b>                 |                  |                  |
| 1 January                                   | 5,675,820        | 5,495,820        |
| Additions                                   | 561,245          | 180,000          |
| <b>31 December</b>                          | <b>6,237,065</b> | <b>5,675,820</b> |
| <b>Total investments at 31 December</b>     | <b>7,175,892</b> | <b>6,529,522</b> |

## 9 Other debtors

|                    | 2004<br>£ | 2003<br>£ |
|--------------------|-----------|-----------|
| Deferred tax asset | 40,015    | -         |

The movement in deferred tax asset is represented as follows:

|                | Balance at<br>1 January<br>2004<br>£ | Movement<br>2004<br>£ | Balance at<br>31 December<br>2004<br>£ |
|----------------|--------------------------------------|-----------------------|----------------------------------------|
| Trading losses | -                                    | 40,015                | 40,015                                 |

## 10 Creditors: amounts falling due within one year

|                   | 2004<br>£ | 2003<br>£ |
|-------------------|-----------|-----------|
| Dividends payable | 2,000,000 | -         |

## 11 Creditors: amounts falling due after one year

|                               | 2004<br>£   | 2003<br>£   |
|-------------------------------|-------------|-------------|
| Amount due to holding company | (7,156,041) | (6,451,367) |

The directors of the holding company have agreed not to call for the repayment of the amount outstanding for a period of at least twelve months from the date on which these financial statements are signed.

## Notes to the financial statements (continued)

For the year ended 31 December 2004

### 12 Accruals and deferred income

|          | 2004<br>£      | 2003<br>£      |
|----------|----------------|----------------|
| Accruals | <u>(1,762)</u> | <u>(1,410)</u> |

### 13 Equity share capital

|                                        | 2004<br>£  | 2003<br>£  |
|----------------------------------------|------------|------------|
| <b>Authorised</b>                      |            |            |
| 100 ordinary shares of £1 each         | <u>100</u> | <u>100</u> |
| <b>Allotted, issued and fully paid</b> |            |            |
| 100 ordinary shares of £1 each         | <u>100</u> | <u>100</u> |

### 14 Movements in equity shareholders' funds

|                                   | Called up<br>share capital<br>£ | Profit and<br>loss account<br>£ | Revaluation<br>Reserve<br>£ | 2004<br>Total<br>£ | 2003<br>Total<br>£ |
|-----------------------------------|---------------------------------|---------------------------------|-----------------------------|--------------------|--------------------|
| 1 January                         | 100                             | 55,429                          | 44,671                      | 100,200            | (8,615)            |
| Prior year adjustment (see below) | -                               | -                               | -                           | -                  | 9,218              |
| Balance at 1 January as restated  | <u>100</u>                      | <u>55,429</u>                   | <u>44,671</u>               | <u>100,200</u>     | <u>603</u>         |
| Movements after taxation          | -                               | 1,981,585                       | 85,125                      | 2,066,710          | 99,597             |
| Dividends                         |                                 | (2,000,000)                     | -                           | (2,000,000)        | -                  |
| 31 December                       | <u>100</u>                      | <u>37,014</u>                   | <u>129,796</u>              | <u>166,910</u>     | <u>100,200</u>     |

During 2003 the company opted to state the listed fixed asset investments at their market value at the balance sheet date. The prior year adjustment shown above in the comparative figures for 2003 arose as a result of this change in accounting policy.

Shareholders' funds comprise £166,910 (2003 - £100,200) equity interests.

### 15 Capital commitments

There were no capital commitments at 31 December 2004 (2003 - £Nil)

## Notes to the financial statements (continued)

For the year ended 31 December 2004

### 16 Reconciliation of operating profit to net cash inflow from operating activities

|                                                  | 2004<br>£      | 2003<br>£      |
|--------------------------------------------------|----------------|----------------|
| Profit on ordinary activities before taxation    | 1,941,570      | 85,939         |
| Increase in debtors                              | (1,991,220)    | (11,963)       |
| Increase in creditors and accruals               | 705,026        | 132,069        |
| <b>Net cash inflow from operating activities</b> | <b>655,376</b> | <b>206,045</b> |

### 17 Related party transactions

Advantage has been taken of the exemption available to 90% or more owned subsidiaries not to disclose related party transactions between the company and its parent undertaking.

### 18 Contingent liability and charges

The company has indemnified its bankers against all liabilities which the bank may from time to time incur in relation to guarantees of £475,000 and US\$10,482,500 which the bank has given to third parties at the request of the company to enable it to make a guarantee of certain liabilities of Lloyd's Syndicate's underwriting results.

### 19 Ultimate and immediate parent company

The directors regard Walsham Brothers and Co Limited a company incorporated in Great Britain and registered in England and Wales, as the ultimate and immediate parent company and the ultimate controlling party. Copies of the financial statements of Walsham Brothers & Co Limited are available to the public and may be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.