



## **Chairman's Statement**

This is my first statement as Chairman of Charles Taylor Consulting (CTC) and I am pleased to report that your company continued to prosper during 2007. The fact that Charles Taylor Consulting is able to report an increase, albeit small, in earnings speaks to the resilience of the company's underlying business model. The board remains confident about the company's prospects and ability to generate cash in 2008. I should emphasise that my focus and that of the board will remain on increasing shareholder value.

### **2007**

In 2007 revenue rose 3% to £81.5m (2006 - £79.1m) with revenues from the Adjusting division rising satisfactorily whilst revenue from our Management and Run-off divisions was broadly flat.

Profit before tax and earnings per share, both on an adjusted basis, rose by 1% to £13.6m (2006 £13.4m) and 31.8p (2006 31.3p), respectively.

On a positive note, our two main client mutuals, Standard and Signal, continue to achieve record tonnage and payroll levels respectively and prospects for both continue to be promising. The adjusting business produced particularly good results in its Energy, Marine and Non-marine sectors. As satisfactory was the stronger performance from our insurance company operations than in 2006.

A combination of factors, however, held back overall performance. The first of these was the weakness of the US\$ against sterling together with other currency movements, which cost us £0.6m in profit before tax in the year and £1.7m in revenue. The second was the fact that, within the Management division, the Non-marine discretionary mutual business failed to produce a satisfactory result. The third factor was a very low level of acquisitions in the insurance company run-off market, which affected the growth of the Run-off division and also had an impact on our investment management business.

The company continues to generate strong cash flows and during the period net debt reduced by a further £5m to £31m despite the financing of one new acquisition. Shareholder equity increased further by £10m in the year principally as a result of the profit for the year but also as a result of a reduced pensions deficit arising from both a higher discount rate applied to scheme liabilities and strong investment returns.

### **Development of the Business**

Management division

*Public sector mutuals*

The UK government Gershon Initiative was designed to promote cost savings through the encouragement of shared procurement in public sector bodies. This led directly to our first venture into the UK public sector, the creation of the London Authorities Mutual. I am pleased to be able to report that from 1 April membership stands at seven London Authorities. We expect this mutual to add further members during the year and that the fully capitalised insurance model this represents will be replicated by other public sector bodies seeking to achieve cost efficiencies through combining their insurances within a mutual insurance company. Your company is well placed to win new management contracts in this very promising, if complex, new area of business.

### *Discretionary mutuals*

We have reviewed the mutual businesses within the Management division and concluded that in future the concentration should be on managing and creating fully capitalised and regulated mutual insurance associations. Their superior robustness and longevity make them a much more attractive proposition than those based on the discretionary mutual model, which often tends to be under-capitalised and less able to sustain acceptable levels of management overhead. Our involvement with discretionary mutuals will be minimised.

### Adjusting division

The completion of the consolidation of all our global adjusting operations into one operating entity took place during 2007 under the brand of “Charles Taylor adjusting”. I expect that the consolidation of all our London based adjusters into one office by the middle of May should have a number of beneficial effects for this division.

### Run-off division

We continue to believe that the Isle of Man remains an attractive location in which to base our life insurance consolidation operations. These had another good year and we continue to examine prospective expansion opportunities. Although not part of the division for reporting purposes the acquisition of Allegro has strengthened our presence in the important Bermuda insurance market and this is already bearing fruit.

## **Strategic Development**

In his statement last year, John Rowe referred to the fact that CTC now covers a wide range of insurance activities. As managers of a range of mutual insurance companies, we are deeply involved in all aspects of the running of insurers: marketing, operating, financial and regulatory. Additionally, we manage the investment portfolios of these mutuals, which have risen to US\$ 1.3billion during the year. Our adjusting business, which is global in its scope, goes by definition to the heart of the insurance process. Finally, the run-off business gives us insight into ways in which to minimise operating cost and maximise the efficiency of insurance businesses.

This range of skills is of course dependent upon our people. CTC has a substantial pool of highly talented and knowledgeable insurance professionals operating around the world. The recruitment, retention and motivation of our people are fundamental to CTC's success as a client-focused organisation and I would like to thank all those whose hard work during the year has contributed to this set of results. Their intelligent and creative deployment is the critical factor that will enable us to grow in 2008 and beyond.

In this regard, growth has clearly been identified by the board as the key priority for CTC. In the Management division, the group has a long tradition of achieving growth by the founding and development of new insurance businesses, of which it has created 10 since 1970, the largest of which has annual premiums of over \$200m. Thus, organic growth across the company plays a central role in the thinking of management and the board.

Similarly, CTC has proved its ability to grow by way of acquisition. The Adjusting division is today a world leader in adjusting large and complex losses. CTC built this business through nine acquisitions between 1996 and 2006. With the wide range of

insurance skills that we have within CTC, we continue to be active in reviewing acquisition opportunities in the insurance sector. In that regard, we would hope that the current weakness in valuations of most financial stocks might assist our endeavours.

One area of insurance where valuations remained high throughout 2007 was run-off. Substantial amounts of capital have been allocated to this part of the insurance sector by a large number of insurance companies and special-purpose entities. At the same time, there were fewer vendors of closed insurance businesses during the year. Consequently, prices of run-off acquisitions continued to rise. Mindful of this, during the year CTC made no acquisitions in the Run-off division. This was disappointing since the division is in a strong position to absorb such deals, which would have a fairly immediate impact on company profits. Nonetheless, we remain watchful and I am confident that we are well positioned to move quickly to execute the right deal.

### **Corporate Governance**

We have decided that a smaller board is better suited to CTC's current stage of development and its aspiration to grow in scale and breadth. To that end, four executive directors have recently offered to step down from the board and Stephen Matthews, Raymond Wong, John McKay and Andrew Brannon have therefore relinquished their positions on the plc board with effect from 4 April, reducing the number of executive directors to five. I thank all of them for their considerable contribution to the board's deliberations over the years. I fully expect that they will continue to play vital parts in the development of CTC as they will all continue with group operational responsibilities.

Richard Titley and John Howes, who have been on the board for eight and six years respectively, are to retire from the board though they have kindly agreed to stay on until two new non-executive directors are found. Their wise counsel during their period in office, much of which was marked by considerable change, has been highly valued. We are very grateful to them.

### **Shareholder Return and Dividends**

CTC will continue to strive to maximise total returns to shareholders over the long term. The share price fell by 14% during 2007, broadly tracking the Small Cap index. This is clearly disappointing both to CTC's shareholders and to the management and staff many of whom are participants in the company's share schemes, and it is of little comfort that most companies quoted on the London Stock Exchange, particularly those in the financial sector, are experiencing similarly difficult stock market conditions. The fact that CTC is able to report an increase, albeit small, in earnings speaks to the strength of the company's underlying business.

We continue to be confident about the company's prospects and ability to generate cash. The board wishes to maintain a progressive dividend policy whilst ensuring a satisfactory level of dividend cover. To that end, it is proposed to raise the final dividend for the year by 10% to 8.40p (2006 - 7.64p). Thus, for the full year, CTC's dividend will total 13.20p (2006 - 12.00p), an increase of 10% over 2006; on this basis, dividend cover will be 2.4 times (2006: 2.6). Subject to approval by shareholders at the AGM, the final dividend will be paid to those shareholders on the register at the close of business on 18 April 2008.

**Current Trading and Outlook**

Trading since the year-end has been in line with management's expectations. We remain confident that through a combination of organic growth, new acquisitions and new initiatives CTC will continue to prosper and grow during 2008.

Rupert Robson  
Chairman  
4 April 2008

## **BUSINESS REVIEW**

### **Description of the Business**

#### **Summary**

CTC provides management and insurance-related services to both buyers of insurance and insurance companies. Given that the group's business is almost entirely related to insurance, the group's activities are subject to the insurance cycle, albeit in different ways, which are explained below following the description of the business of each division.

#### **Management Division**

##### **Management and Creation of Mutuals:**

This is the largest activity of the Management division and involves the provision of all the day-to-day services needed to run mutual insurance associations.

Mutuals are generally created by companies or organisations which operate in the same fields as each other, or similar fields and which accordingly have similar liability exposures. Rather than insure with a commercial profit-making insurer, members of mutual insurance associations collectively self-insure. A mutual insurance association is owned by its members who also provide the capital, in contrast to the normal relationship between a commercial insurer and a policy holder.

##### **Investment Management:**

Investment management is provided to both client mutuals and group owned insurance companies.

##### **Captive and Risk Management:**

These activities include the management of captive insurance companies, principally but not exclusively in Bermuda, and the provision of risk management and other advice to corporate buyers of insurance on the structure and appropriateness of their insurance arrangements.

As far as the insurance cycle is concerned, when insurance is more expensive (hard market), the balance shifts in favour of mutuals, where the aim is to provide insurance at cost and where there is the ability to absorb high levels of aggregate risk between the members. By contrast the availability of cheaper insurance (soft market) may lead to increased competitive pressures and a climate where the alternative risk transfer mechanisms, such as mutuals, become less attractive. In most circumstances, however, once companies have joined a mutual, through which they collectively control their own insurance affairs, they tend to remain members irrespective of any shift in the insurance cycle.

#### **Adjusting Division**

This division provides loss adjusting capabilities to the world's insurance markets and Average Adjusting to shipowners. The adjusting activities on behalf of insurers, which also include surveying and risk assessment, are concentrated in four principal areas:

- Aviation
- Energy
- Marine
- Non-marine (property & casualty)

For management and reporting purposes, Average Adjusting is included within the marine business.

In respect of the insurance cycle, a softening market tends to result in cheaper insurance and lower deductibles, something which exposes insurers to the greater probability of claims and thus increases the opportunities for the Adjusting division. As the market hardens, more expensive insurance and higher deductibles tend to reduce claims but as already indicated these are the conditions that favour the creation and expansion of Mutual insurance schemes and captives.

### **Run-off Division**

The Run-off division is involved with both the orderly management of insurance and life assurance companies which have ceased underwriting and claims arising on discontinued books of insurance business. This activity may involve acquisitions in either case.

As the insurance cycle moves towards harder insurance markets it tends to create favourable conditions for the Run-off division, as insurers decide to reallocate capital or dispose of non-core or unprofitable books of business. Once secured, contracts for managing the run-off of claims typically last for several years whatever the cyclical conditions.

### **Business Performance Management Division**

The group manages two types of mutuals. The majority are authorised insurance companies but some others are discretionary mutuals which do not provide insurance but instead protection to their members at the discretion of the relevant board of directors. During the year the company reviewed its involvement in discretionary mutuals and concluded that this should be substantially reduced. The profitability of the division is expected to improve as a result.

#### *Capitalised Mutuals*

##### *Shipping Mutuals*

In spite of the increase in rates at the February 2008 renewal, the Club's tonnage increased to the highest level in its history. There was good growth in the Asian subsidiary, Standard Asia and in the offshore energy portfolio. Free reserves have also been increased again to a new record high level.

##### *Workers' Compensation Mutuals*

Signal, which covers US maritime employers' liabilities to their employees in relation to workplace injuries, saw payrolls rise again during the year to new record levels. Although the slowing US economy reduced the growth in the stevedore sector, this was offset by the shipyard and offshore sectors. Continued improvements in claims performance led to a small reduction overall in member rates at the October 2007 renewal. Towards the end of the year two significant West Coast stevedore operations joined Signal.

SCALA, the mutual that covers the workers' compensation liabilities of the majority of Canadian ship-owners, again performed well. A new IT system was developed by the group for SCALA which went live soon after the year end.

### *Public Sector Mutuals*

Significant progress continues to be made in the UK public sector. The London Authorities Mutual Limited increased its membership to seven on 1 April and a further two members will join in early summer taking the membership to over a quarter of the London Authorities. The Fire and Rescue Authorities Mutual Limited increased its membership to nine on 1 April, around 20% of eligible English and Welsh Fire Authorities.

The development of the Council Alternative Risk Mutual Limited (CARML), a mutual for UK Unitary Authorities, is being led by a Steering Committee of nine Unitary Authorities. This is expected to commence operations in early 2009.

### Discretionary Mutuals

The group discontinued its involvement during the year with the NFRN and Marathon mutuals and its involvement with its remaining discretionary mutuals has been reduced further after the year end.

### Investment Management

The group's investment management business produced another good performance for its client mutuals. Funds under management rose by 11% to over US\$1.33bn, following a 9% increase in 2006. However, the overall results of the investment management business was impacted by the lack of new acquisitions being made by the run-off division.

### Captive Management

The group's existing captive business was combined with the Allegro business acquired in July to form CTC Allegro. This business performed well and is expected to make further progress in the coming year.

### Risk Management

The US risk management business continued to expand its business and range of clients.

## **Adjusting Division**

Revenues increased in 2007, despite there being relatively few major losses. The soft insurance market together with the high levels of energy exploration activity and continued growth in both Asian aviation and global shipping were positive factors for the business. However, the weakness of the dollar and performance of aviation, particularly in US light aviation, had a negative impact on the result for the year.

*Aviation:* 24% of Adjusting Revenue (2006 – 25%)

Aviation revenues grew more slowly than in 2006, with the US general light aviation adjusting business seeing less activity. The Miami office however, which handles Latin American losses, continued to make good progress. The Asian business also continued to develop with a further strengthening of the liability team taking place.

*Energy:* 42% of Adjusting Revenue  
(2006 – 41%)

The energy business increased revenues particularly in the UK. The US and Australian businesses also had a good year and the Mexican operation was instructed on significant rig damage and environmental clean-up losses.

*Marine:* 22% of Adjusting Revenue  
(2006 – 23%)

Overall the marine business performed well during 2007 and in particular this was due to the results achieved in Shanghai, Taiwan, Jakarta, Tokyo and Hong Kong.

*Non-marine:* 12% of Adjusting Revenue (2006 – 11%)

Non-marine produced a good result, particularly in London, the largest office, as well as in Miami. Expansion in the Arabian peninsular continued with an office being opened in Qatar.

## **Run-off Division**

For the Run-off business, a market background of insurance companies reporting strong profits and new entrants to the run-off sector led to a drop in the number of run-off opportunities in the market and an increase in the price demanded by sellers. As a result, a very low level of acquisitions across the run-off market were completed during the year.

### **Run-off Services**

#### *Non-Life Business*

On the non-life business, LCL considered a significant number of potential acquisitions during the year, none of which have been completed to date, a situation which reflects the general market background. The division intends to pursue opportunities aggressively where a deal satisfactory to all parties can be achieved. LCL also provided run-off consultancy advice to a major reinsurer during the year.

#### *Life Business*

The group is the largest provider of run-off services to the life insurance sector on the Isle of Man. During the year, LCL Services (IOM) Limited was awarded the management contract for a new life reinsurer being established on the island.

## Insurance Companies

### *Property & Casualty Business*

Bestpark International Limited had a better year than in 2006. Although the business incurred a small underwriting loss in the year and investment income was lower than in 2006 (as assets have been reduced in order to pay claims), there were favourable premium adjustments and expenses were significantly lower than in 2006.

Associated International Insurance (Bermuda) Limited paid a dividend of £1.1m during the year, representing a return of surplus capital. This business made a smaller contribution to group results than in 2006 as large commutations achieved in that year have not been repeated.

### *Life Business*

LCL International Life Assurance Company Limited, a closed book consolidator of international life assurance portfolios, did not acquire any further blocks of business during 2007 but did produce dividends for the group of £5.5m, a 14% increase on 2006.

The life insurance result for 2007 was £0.7m less than 2006 not only as a natural result of policies running off, but also because the prior year benefited from the consolidation of several closed books into LCL International Life Assurance. The result was none the less better than expected, mainly as a result of positive investment experience and its impact on management fees.

Segmental information is provided on the activities of the Management, Adjusting and Run-off divisions in note 2 to the financial statements.

## **Results**

In 2007, turnover rose from £79.1m to £81.5m. Adjusted profit before tax rose from £13.4m to £13.6m.

### **Total Shareholder Return**

Total shareholder return was an unsatisfactory negative 10.7% in 2007, with the share price at 337p at 31 December 2007 compared to 391p at 29 December 2006 and dividends paid in 2007 of 12.44p compared to 10.40p in 2006. Small cap stocks have generally underperformed the market during the year and the group's total shareholder return has been similar to that of the overall small cap index. The group's three-year total shareholder return is 60% (2006 – 65%).

### **Dividends and Earnings per Share**

The proposed final dividend for 2007 is 8.40p (2006 – 7.64p) so that the total dividend for the year is 13.20p. This represents a year-on-year increase of 10%. It remains the intention of the board to maintain a progressive dividend policy, while retaining sufficient cash in the business to fund organic and acquisition growth. Adjusted dividend cover of 2.4 times compares to 2.6 times the previous year.

Adjusted earnings per share rose from 31.3p to 31.8p, an increase of 1%.

There are 1.7m shares under option at the end of the year, which produce an adjusted diluted earnings per share of 31.6p. Of the outstanding share options, 0.7m had exercise prices below the company's share price at the close of business on 31 December 2007 – 337p. Of these 0.4m are exercisable during 2008.

## Key Performance Indicators

The board uses a range of key performance indicators to measure past performance and as a basis for future business planning. At a corporate level, these indicators are all financial measures.

|   | Note | 2007   | 2006 |
|---|------|--------|------|
| Earnings per share (p)                    | 1    | 31.8   | 31.3 |
| Revenue growth (%)                        | 2    | 5.5    | 17.4 |
| Operating margin (%)                      | 3    | 18.5   | 19.5 |
| Total shareholder return (%) – one year   | 4    | (10.7) | 27.6 |
| Total shareholder return (%) – three year | 5    | 60.2   | 65.0 |
| Interest cover (times)                    | 6    | 5.5    | 5.3  |
| Dividend cover (times)                    | 7    | 2.4    | 2.6  |
| Free cash flow (£m)                       | 8    | 11.4   | 17.8 |

Notes:

1. Adjusted earnings divided by weighted average number of shares.
2. Annual growth at constant exchange rates.
3. Adjusted profit from operations as a percentage of revenue.
4. Annual movement in share price plus dividends paid (assuming reinvested) divided by share price at beginning of year.
5. Three-year movement in share price plus dividends paid (assuming reinvested) divided by share price at beginning of period.
6. Total profit from operations adjusted for amortisation of goodwill and acquired intangible assets plus investment and other income from non-insurance activities divided by finance costs.
7. Adjusted profit for the year divided by dividends paid and declared for the year.
8. Net cash from operating activities excluding movement in client monies plus interest received less expenditure on acquisition of tangible and intangible assets plus disposal proceeds.

Note: 2007 figures have been adjusted to exclude a goodwill charge of £4,961,000 (2006 – £1,100,000) and amortisation of acquired customer relationship intangibles of £307,000 (2006 – £139,000).

There are 1.7m shares under option at the end of the year, which produce an adjusted diluted earnings per share of 31.6p. Of the outstanding share options, 0.7m were exercisable below the company's share price at the close of business on 31 December 2007 – 337p.

## Treasury

The group manages its exposure to foreign currency fluctuations by the use of forward foreign exchange contracts and options to sell currency in the future. The contracts open during the year and at the year-end were all to protect the group's exposure to movements in the US\$: £ sterling rate.

Over recent years, the US\$ has weakened significantly against £ sterling. In 2003, the US\$ profits of the group were translated at 1.63 to £1 and this rate moved to 1.85 by 2006 and almost 2.01 by 2007. If 2006 average exchange rates had prevailed during

2007, revenue would have been £1.7m higher than reported and profit before tax would have been £0.6m higher.

In addition, the group uses working capital overdrafts in billing currencies other than the functional currency in order to manage the exposure to currency fluctuations.

Although interest rates remain at historically low levels, so that a significant proportion of borrowings are at floating interest rates, the group's interest rate cap has been an effective hedge against 2007 interest rate increases and provides helpful support to the group against an uncertain future interest rate outlook. At year end, the cap covered a principal of £14.75m (reducing as borrowings are repaid) and caps three-month LIBOR at 5.5% until the end of 2008.

The borrowings in £ sterling and US\$ are principally at rates that are linked to LIBOR plus margins of 1.25-1.75%.

Interest cover has increased to 5.5 times (2006 – 5.3 times). The level of cover remains satisfactory.

### **Taxation**

During 2007, the effective tax rate on profits was 8.0% (2006 – 8.6%). The group's tax charge for the year consists of three principal elements: the tax charge on UK and overseas profits, the UK tax charge on dividends remitted from offshore companies (especially the Isle of Man) and deferred taxation relating to the use of deferred tax assets by group companies and the minority owner of Bestpark International Limited. UK tax relief is expected to continue to be available from Bestpark International Limited's losses during 2008.

### **Financing**

During the year, £11.4m of free cash flow was generated (representing 85% of adjusted profit from operations, compared to 123% in 2006 and 60% in 2005) and loan repayments of £8.4m were made. Net debt reduced by £4.8m to £30.7m, with a reduction of £6.4m in borrowings, an increase of £5.9m in client funds and an increase of £4.3m in cash and cash equivalents.

The group has issued share capital (including share premium) of £30.2m at 31 December 2007.

During the year, a number of executive and share scheme options were exercised producing cash of £0.9m. During 2008, 0.4 million options are exercisable at below the market price at 31 December 2007. If they were all exercised they would generate £1.1m in cash for the group.

### **Acquisitions**

In July 2007, the group acquired the Allegro group of companies, which manages captive insurance companies in Bermuda. The consideration was £2.8m in cash including £0.5m deferred and subject to profitability targets being achieved.

**Retirement Benefit Schemes**

The group has four defined benefit pension schemes, two of which have liabilities which exceed their assets by a material amount. Strong investment returns and lower bond yields have reduced net deficits significantly during 2007, although this has been moderated by higher inflation assumptions and more prudent longevity assumptions following a new valuation of one scheme. Future balance sheet valuations of pension assets and liabilities are difficult to predict as they depend on uncertain variables which are outside the group's control and may fluctuate. The company intends to address its funding obligations fully, while balancing the various requirements of scheme members, shareholders and other stakeholders.

**Principal Risks and Uncertainties**

The principal risks facing the group and the processes by which they are managed, together with the financial risks and uncertainties are explained in the Annual Report and Financial Statements.

**John Rowe**

Chief Executive

**Damian Ely**

Chief Operating Officer

**George Fitzsimons**

Finance Director

4 April 2008

**Consolidated Income Statement**  
For the year ended 31 December 2007

|   | Year to<br>31<br>December<br>2007 | Year to<br>31<br>December<br>2006 |
|---|-----------------------------------|-----------------------------------|
|   | Note                              | £000                              |
| <b>Continuing operations</b>                                    |                                   |                                   |
| Revenue   |                                   | 75,884                            |
| Revenue from insurance contracts acquired                       |                                   | 7,844                             |
| Outward reinsurance premiums                                    |                                   | (2,224)                           |
| Net revenue from insurance contracts acquired                   |                                   | 5,620                             |
| Total revenue   | 2                                 | 81,504                            |
| Claims from insurance contracts acquired                        |                                   | (17,400)                          |
| Reinsurance recoveries  |                                   | 3,342                             |
| Expenses of managing insurance companies                        |                                   | (5,908)                           |
| Investment and other income from insurance activities           |                                   | 16,020                            |
| Net expenses and other income from insurance contracts acquired |                                   | (3,946)                           |
| Amounts written off goodwill                                    |                                   | (4,961)                           |
| Administrative expenses   |                                   | (63,008)                          |
| Share of results of associates                                  |                                   | 116                               |
| Share of results of joint ventures                              |                                   | 129                               |
| <b>Profit from operations</b>                                   |                                   | 9,834                             |
| Investment and other income from non-insurance activities       |                                   | 1,503                             |
| Finance costs   |                                   | (3,039)                           |
| <b>Profit before tax</b>  |                                   | 8,298                             |
| Income tax expense  |                                   | (667)                             |
| <b>Profit for the year from continuing operations</b>           |                                   | 7,631                             |
| Attributable to:  |                                   |                                   |
| Equity holders of the parent                                    |                                   | 7,370                             |
| Minority interest   |                                   | 261                               |
|   |                                   | 7,631                             |
|   |                                   | 11,115                            |
|   |                                   | 11,027                            |
|   |                                   | 88                                |
|   |                                   | 11,115                            |

**Earnings per share from continuing operations**

|                      |   |       |       |
|----------------------|---|-------|-------|
| Basic (p)            | 3 | 18.52 | 28.14 |
| Diluted (p)          | 3 | 18.43 | 27.96 |
| Basic adjusted (p)   | 3 | 31.76 | 31.30 |
| Diluted adjusted (p) | 3 | 31.60 | 31.10 |

## Consolidated Balance Sheet

At 31 December 2007

|   | At<br>31<br>December<br>2007<br>£000 | At<br>31<br>December<br>2006<br>£000 |
|---|--------------------------------------|--------------------------------------|
| <b>Non-current assets</b>                 |                                      |                                      |
| Goodwill                                  | 34,713                               | 38,742                               |
| Intangible assets                         | 11,276                               | 10,617                               |
| Property, plant and equipment             | 4,023                                | 4,160                                |
| Interests in associates                   | 936                                  | 926                                  |
| Interests in joint ventures               | 633                                  | 543                                  |
| Investments                               | 30                                   | 31                                   |
| Deferred tax assets                       | 3,208                                | 6,299                                |
|   | <hr/> 54,819                         | <hr/> 61,318                         |
| <b>Current assets</b>                     |                                      |                                      |
| Total assets in insurance businesses      | 284,261                              | 324,976                              |
| Trade and other receivables               | 4 48,013                             | 44,834                               |
| Cash and cash equivalents                 | 35,254                               | 30,922                               |
|   | <hr/> 367,528                        | <hr/> 400,732                        |
| <b>Total assets</b>                       | <hr/> 422,347                        | <hr/> 462,050                        |
| <b>Current liabilities</b>                |                                      |                                      |
| Total liabilities in insurance businesses | 275,120                              | 312,048                              |
| Trade and other payables                  | 5 15,662                             | 17,221                               |
| Tax liabilities                           | 3,566                                | 2,153                                |
| Obligations under finance leases          | 242                                  | 149                                  |
| Bank overdrafts and loans                 | 17,914                               | 18,888                               |
| Client funds                              | 26,701                               | 20,790                               |
|   | <hr/> 339,205                        | <hr/> 371,249                        |
| <b>Net current assets</b>                 | <hr/> 28,323                         | <hr/> 29,483                         |
| <b>Non-current liabilities</b>            |                                      |                                      |
| Bank loans                                | 20,471                               | 26,282                               |
| Retirement benefit obligation             | 9,572                                | 19,609                               |
| Provisions                                | 456                                  | 2,597                                |
| Obligations under finance leases          | 575                                  | 280                                  |
| Deferred consideration – LCL acquisition  | 6,185                                | 6,174                                |
| Deferred consideration – other            | 337                                  | 430                                  |
|   | <hr/> 37,596                         | <hr/> 55,372                         |
| <b>Total liabilities</b>                  | <hr/> 376,801                        | <hr/> 426,621                        |

|   |        |         |
|---|--------|---------|
| <b>Net assets</b>                                   | 45,546 | 35,429  |
| <b>Equity</b>                                       |        |         |
| Share capital                                       | 400    | 397     |
| Share premium account                               | 29,769 | 28,824  |
| Merger reserve                                      | 6,872  | 6,872   |
| Capital reserve                                     | 662    | 662     |
| Own shares  | (309)  | (211)   |
| Retained earnings                                   | 7,316  | (1,804) |
| Equity attributable to equity holders of the parent | 44,710 | 34,740  |
| Minority interest                                   | 836    | 689     |
| <b>Total equity</b>                                 | 45,546 | 35,429  |

The financial statements were approved by the board of directors and authorised for issue on 4 April 2008.

**George Fitzsimons**  
 Director  
 4 April 2008

**Consolidated Cash Flow Statement**  
For the year ended 31 December 2007

|   | Year to<br>31<br>December<br>2007 | Year to<br>31<br>December<br>2006 |
|---|-----------------------------------|-----------------------------------|
| Note  | £000                              | £000                              |
| <b>Net cash from operating activities</b>             | 7 17,453                          | 14,623                            |
| <b>Investing activities</b>                           |                                   |                                   |
| Interest received                                     | 718                               | 681                               |
| Proceeds on disposal of property, plant and equipment | 111                               | 240                               |
| Purchases of property, plant and equipment            | (509)                             | (1,273)                           |
| Acquisition of intangible assets                      | (371)                             | (782)                             |
| Purchases of investments                              | (97)                              | (77)                              |
| Proceeds from sale of investments                     | –                                 | 1,568                             |
| Acquisition of subsidiaries                           | (2,255)                           | (2,562)                           |
| Disposal of subsidiary                                | 545                               | –                                 |
| Payment of deferred consideration                     | (228)                             | (2,926)                           |
| Net cash acquired with subsidiary                     | 527                               | 155                               |
| Net cash disposed of with subsidiary                  | (178)                             | –                                 |
| <b>Net cash used in investing activities</b>          | <u>(1,737)</u>                    | <u>(4,976)</u>                    |
| <b>Financing activities</b>                           |                                   |                                   |
| Proceeds from issue of shares                         | 878                               | 375                               |
| Dividends paid  | (4,952)                           | (4,083)                           |
| Repayments of borrowings                              | (8,396)                           | (11,666)                          |
| Repayments of obligations under finance leases        | (317)                             | (154)                             |
| New bank loans raised                                 | 2,259                             | 1,468                             |
| (Decrease)/increase in bank overdrafts                | (800)                             | 4,466                             |
| <b>Net cash used in financing activities</b>          | <u>(11,328)</u>                   | <u>(9,594)</u>                    |
| <b>Net increase in cash and cash equivalents</b>      | 4,388                             | 53                                |
| <b>Cash and cash equivalents at beginning of year</b> | 30,922                            | 31,828                            |
| Effect of foreign exchange rate changes               | (56)                              | (959)                             |
| <b>Cash and cash equivalents at end of year</b>       | <u>35,254</u>                     | <u>30,922</u>                     |

## Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

|   | Year to<br>31<br>December<br>2007<br>£000 | Year to<br>31<br>December<br>2006<br>£000 |
|---|---|---|
| Gains/(losses) on revaluation of available-for-sale investments taken to equity | 490                                       | (1,069)                                   |
| Exchange differences on translation of foreign operations                       | (98)                                      | 1,308                                     |
| Actuarial gains on defined benefit pension schemes                              | 8,539                                     | 4,107                                     |
| Tax on items taken directly to equity   | (2,806)                                   | (1,371)                                   |
|   | <hr/>                                     | <hr/>                                     |
| Net income recognised directly in equity  | 6,125                                     | 2,975                                     |
| Profit for the year   | 7,631                                     | 11,115                                    |
|   | <hr/>                                     | <hr/>                                     |
| <b>Total recognised income and expense for the year</b>                         | <b>13,756</b>                             | <b>14,090</b>                             |
|   | <hr/>                                     | <hr/>                                     |
| Attributable to:  |   |   |
| Equity holders of the parent  | 13,495                                    | 14,002                                    |
| Minority interests  | 261                                       | 88  |
|   | <hr/>                                     | <hr/>                                     |
|   | 13,756                                    | 14,090                                    |
|   | <hr/>                                     | <hr/>                                     |

## Notes to the Financial Statements

For the year ended 31 December 2007

### 1. Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2007 or 2006, but is derived from those accounts. Statutory accounts for 2006 have been delivered to the Registrar of Companies and those for 2007 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s. 237 (2) or (3) Companies Act 1985.

### 2. Segmental information

For management purposes, the group is currently organised into three operating divisions – Management, Adjusting and Run-off Services.

Principal activities are as follows:

Management – Mutual management, captive management, investment management and risk management.

Adjusting – Energy, Aviation, Non-marine and Marine (including Average) adjusting.

Run-off Services – Insurance company acquisition and run-off services. The results of insurance companies have been shown separately in the segmental information so as to reconcile to the Income Statement.

Segmental information about these businesses is presented below:

|   | Year to<br>31<br>December<br>2007<br>£000 | Year to<br>31<br>December<br>2006<br>£000 |
|---|---|---|
| <b>Revenue</b>                          |   |   |
| Management                              | 36,088                                    | 35,420                                    |
| Adjusting                               | 37,533                                    | 35,449                                    |
| Run-off Services                        | 6,152                                     | 8,359                                     |
| Insurance companies – life and non-life | 5,620                                     | 5,532                                     |
| Intercompany eliminations               | (3,889)                                   | (5,647)                                   |
|   | <hr/>                                     | <hr/>                                     |
|   | 81,504                                    | 79,113                                    |
|   | <hr/>                                     | <hr/>                                     |

|   | Year to<br>31<br>December<br>2007<br>£000 | Year to<br>31<br>December<br>2006<br>£000 |
|---|---|---|
| <b>Result</b>                                     |   |   |
| Management  | 6,766                                     | 7,959                                     |
| Adjusting   | 5,044                                     | 5,024                                     |
| Run-off Services                                  | 781                                       | 1,042                                     |
| Insurance companies – life and non-life           | 1,675                                     | 999                                       |
|   | <hr/>                                     | <hr/>                                     |
|   | 14,266                                    | 15,024                                    |
| Amounts written off goodwill                      | (4,961)                                   | (1,100)                                   |
| Unallocated foreign exchange                      | 284                                       | (11)                                      |
| Share of results of associates and joint ventures | 245                                       | 266                                       |
|   | <hr/>                                     | <hr/>                                     |
| Profit from operations                            | 9,834                                     | 14,179                                    |
| Investment income                                 | 1,503                                     | 1,091                                     |
| Finance costs                                     | (3,039)                                   | (3,114)                                   |
|   | <hr/>                                     | <hr/>                                     |
| Profit before tax                                 | 8,298                                     | 12,156                                    |
| Tax   | (667)                                     | (1,041)                                   |
|   | <hr/>                                     | <hr/>                                     |
| Profit after tax                                  | 7,631                                     | 11,115                                    |
|   | <hr/>                                     | <hr/>                                     |

|                                      | Year to<br>31<br>December<br>2007<br>£000 | Year to<br>31<br>December<br>2006<br>£000 |
|--------------------------------------|---|---|
| <b>Capital additions</b>             |   |   |
| Management                           | 71  | 430                                       |
| Adjusting                            | 249                                       | 617                                       |
| Run-off Services                     | 71  | 40  |
| Unallocated corporate assets         | 803                                       | 186                                       |
|                                      | <hr/>                                     | <hr/>                                     |
|                                      | 1,194                                     | 1,273                                     |
|                                      | <hr/>                                     | <hr/>                                     |
| <b>Depreciation and amortisation</b> |   |   |
| Management                           | 314                                       | 265                                       |
| Adjusting                            | 575                                       | 606                                       |
| Run-off Services                     | 99  | 214                                       |
| Unallocated corporate assets         | 327                                       | 190                                       |
|                                      | <hr/>                                     | <hr/>                                     |
|                                      | 1,315                                     | 1,275                                     |
|                                      | <hr/>                                     | <hr/>                                     |

|  | At<br>31<br>December<br>2007<br>£000 | At<br>31<br>December<br>2006<br>£000 |
|--|--------------------------------------|--------------------------------------|
| <b>Assets</b>                                      |                                      |                                      |
| Management   | 68,657                               | 66,578                               |
| Adjusting  | 109,175                              | 100,653                              |
| Run-off Services                                   | 35,064                               | 29,453                               |
| Insurance companies – life and non-life            | 292,295                              | 333,713                              |
| Unallocated corporate assets and eliminations      | (82,844)                             | (68,347)                             |
|  | <hr/>                                | <hr/>                                |
|  | 422,347                              | 462,050                              |
|  | <hr/>                                | <hr/>                                |
| <br><b>Liabilities</b>                             |                                      |                                      |
| Management   | 52,894                               | 42,403                               |
| Adjusting  | 86,666                               | 80,058                               |
| Run-off Services                                   | 24,464                               | 25,495                               |
| Insurance companies – life and non-life            | 275,140                              | 314,219                              |
| Unallocated corporate liabilities and eliminations | (62,363)                             | (35,554)                             |
|  | <hr/>                                | <hr/>                                |
|  | 376,801                              | 426,621                              |
|  | <hr/>                                | <hr/>                                |

Segmental information on a geographical basis is shown below:

|                | Year to<br>31<br>December<br>2007 | Year to<br>31<br>December<br>2006 |
|----------------|-----------------------------------|-----------------------------------|
| <b>Revenue</b> |                                   |                                   |
| United Kingdom | 25,783                            | 24,951                            |
| Other Europe   | 6,533                             | 6,893                             |
| North America  | 12,357                            | 11,551                            |
| Asia Pacific   | 8,353                             | 7,796                             |
| Bermuda        | 28,478                            | 27,922                            |
|                | <hr/>                             | <hr/>                             |
|                | 81,504                            | 79,113                            |
|                | <hr/>                             | <hr/>                             |

|                          | Year to<br>31<br>December<br>2007 | Year to<br>31<br>December<br>2006 |
|--------------------------|-----------------------------------|-----------------------------------|
| <b>Capital additions</b> |                                   |                                   |
| United Kingdom           | 868                               | 389                               |
| Other Europe             | 78                                | 66                                |
| North America            | 161                               | 296                               |
| Asia Pacific             | 80                                | 511                               |
| Bermuda                  | 7                                 | 11                                |
|                          | <hr/>                             | <hr/>                             |
|                          | 1,194                             | 1,273                             |
|                          | <hr/>                             | <hr/>                             |

|                | At<br>31<br>December<br>2007<br>£000 | At<br>31<br>December<br>2006<br>£000 |
|----------------|--------------------------------------|--------------------------------------|
| <b>Assets</b>  |                                      |                                      |
| United Kingdom | 369,830                              | 360,726                              |
| Other Europe   | 231,512                              | 250,785                              |
| North America  | 45,194                               | 38,732                               |
| Asia Pacific   | 23,341                               | 18,061                               |
| Bermuda        | 32,423                               | 32,922                               |
| Eliminations   | (279,953)                            | (239,176)                            |
|                | <hr/>                                | <hr/>                                |
|                | 422,347                              | 462,050                              |
|                | <hr/>                                | <hr/>                                |

### 3. Earnings per share

Earnings per ordinary share have been calculated by dividing the profit on ordinary activities after taxation and minority interests for each period by the weighted average number of shares in issue. The shares held by the ESOP have been excluded from the calculation because the trustees have waived the right to dividends on these shares.

The calculation of the basic and diluted earnings per share is based on the following data:

|   | Year to<br>31<br>December<br>2007<br>£000 | Year to<br>31<br>December<br>2006<br>£000 |
|---|---|---|
| <b>Earnings</b>   |   |   |
| Earnings for the purposes of adjusted earnings per share being adjusted profit after tax attributable to equity holders of the parent | 12,638                                    | 12,266                                    |
| Amounts written off goodwill  | (4,961)                                   | (1,100)                                   |
| Amortisation of acquired customer relationship intangible assets  | (307)                                     | (139)                                     |
|   | <hr/>                                     | <hr/>                                     |
| Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent       | 7,370                                     | 11,027                                    |
|   | <hr/>                                     | <hr/>                                     |
|   | Number                                    | Number                                    |
| <b>Number of shares</b>   |   |   |
| Weighted average number of ordinary shares for the purposes of basic earnings per share   | 39,789,213                                | 39,196,810                                |
| Effect of dilutive potential ordinary shares:   |   |   |
| Share options   | 198,402                                   | 248,255                                   |
|   | <hr/>                                     | <hr/>                                     |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share   | 39,987,615                                | 39,445,065                                |
|   | <hr/>                                     | <hr/>                                     |

#### 4. Trade and other receivables

|                            | At<br>31<br>December<br>2007<br>£000 | At<br>31<br>December<br>2006<br>£000 |
|----------------------------|--------------------------------------|--------------------------------------|
| Trade debtors              | 18,050                               | 18,907                               |
| Amounts owed by associates | 229                                  | 4                                    |
| Other debtors              | 3,163                                | 3,806                                |
| Prepayments                | 2,253                                | 1,761                                |
| Accrued income             | 24,165                               | 20,280                               |
| Corporation tax            | 153                                  | 76                                   |
|                            | <hr/>                                | <hr/>                                |
|                            | 48,013                               | 44,834                               |
|                            | <hr/>                                | <hr/>                                |

#### 5. Trade and other payables

|                                    | At<br>31<br>December<br>2007<br>£000 | At<br>31<br>December<br>2006<br>£000 |
|------------------------------------|--------------------------------------|--------------------------------------|
| 'C' Loan stock                     | 74                                   | 79                                   |
| Other loans                        | 2,696                                | 4,681                                |
| Trade creditors                    | 3,624                                | 3,282                                |
| Amounts owed to associates         | 214                                  | 203                                  |
| Other taxation and social security | 1,393                                | 1,103                                |
| Other creditors                    | 1,107                                | 1,454                                |
| Accruals and deferred income       | 5,882                                | 6,149                                |
| Deferred consideration             | 672                                  | 270                                  |
|                                    | <hr/>                                | <hr/>                                |
|                                    | 15,662                               | 17,221                               |
|                                    | <hr/>                                | <hr/>                                |

Included in other loans are amounts owed to insurance businesses of £2,296,000 (2006 – £4,219,000). A corresponding asset is included in the balance sheet within 'total assets in insurance businesses'.

## 6. Net interest bearing liabilities

|                                   | At<br>31<br>December<br>2007<br>£000 | At<br>31<br>December<br>2006<br>£000 |
|-----------------------------------|--------------------------------------|--------------------------------------|
| Cash and cash equivalents         | 35,254                               | 30,922                               |
| Bank overdrafts and current loans | (17,914)                             | (18,888)                             |
| Non-current bank loans            | (20,471)                             | (26,282)                             |
| Loan stock                        | (74)                                 | (79)                                 |
| Finance leases                    | (817)                                | (429)                                |
|                                   | <hr/>                                | <hr/>                                |
|                                   | (4,022)                              | (14,756)                             |
| Client funds                      | (26,701)                             | (20,790)                             |
|                                   | <hr/>                                | <hr/>                                |
|                                   | (30,723)                             | (35,546)                             |
|                                   | <hr/>                                | <hr/>                                |

## 7. Notes to the cash flow statement

|  | Year to<br>31<br>December<br>2007<br>£000 | Year to<br>31<br>December<br>2006<br>£000 |
|--|---|---|
| Profit from operations                                   | 9,834                                     | 14,179                                    |
| Profit from insurance companies                          | (1,674)                                   | (999)                                     |
|  | <hr/>                                     | <hr/>                                     |
| Profit from operations (excluding insurance companies)   | 8,160                                     | 13,180                                    |
| Adjustments for:   |   |   |
| Depreciation of property, plant and equipment            | 1,315                                     | 1,275                                     |
| Amortisation of intangibles                              | 5,674                                     | 1,428                                     |
| Other non-cash items                                     | 171                                       | 103                                       |
| Decrease in provisions                                   | (1,488)                                   | (608)                                     |
| Share of results of associates and joint ventures        | (245)                                     | (266)                                     |
|  | <hr/>                                     | <hr/>                                     |
| Operating cash flows before movements in working capital | 13,587                                    | 15,112                                    |
| (Increase)/decrease in receivables                       | (2,844)                                   | 2,429                                     |
| (Decrease)/increase in payables                          | (2,089)                                   | 499                                       |
|  | <hr/>                                     | <hr/>                                     |
| Cash generated by operations                             | 8,654                                     | 18,040                                    |
| Income taxes (paid)/recovered                            | (759)                                     | (839)                                     |
| Interest paid  | (3,034)                                   | (3,078)                                   |
| Dividends from insurance companies                       | 6,596                                     | 4,810                                     |
|  | <hr/>                                     | <hr/>                                     |
| Net cash before movement in client monies                | 11,457                                    | 18,933                                    |
| Movement in client monies                                | 5,996                                     | (4,310)                                   |
|  | <hr/>                                     | <hr/>                                     |
| Net cash from operating activities                       | 17,453                                    | 14,623                                    |
|  | <hr/>                                     | <hr/>                                     |

Additions to tangible fixed assets during the period amounting to £685,000 (2006 – £315,000) were financed by new finance leases.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly-liquid investments with a maturity of three months or less. The cash flow statements exclude the cash flows within the group's insurance companies.

Cash includes client monies of £26,701,000 (2006 – £20,790,000).

This Press Release contains certain forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements, depending on a variety of factors, including demand and pricing; operational problems; general economic conditions; political stability and economic growth in relevant areas of the world; changes in laws and governmental regulations; exchange rate fluctuations and other changes in business conditions; the actions of competitors and other factors.