



THB Group plc Prospectus



Thompson Heath & Bond

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

This document, which comprises a prospectus, has been drawn up in accordance with The Public Offers of Securities Regulations 1995, as amended (“POS Regulations”) and the Rules of the Alternative Investment Market of the London Stock Exchange plc (“AIM”). A copy of this document has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations. The Directors accept responsibility for the information contained in this document. To the best of the knowledge of the Directors the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information.

Application has been made for the whole of the issued and to be issued ordinary share capital of THB Group plc immediately following the Placing to be admitted to AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document. It is expected that dealings in the Ordinary Shares will commence on AIM on 1 October 2002.

The whole of the text of this document should be read. Your attention is particularly drawn to the section entitled “Risk Factors” in Part Two of this document.

THB Group plc

(Incorporated in England and Wales with registered number 1514749)

Placing by

Numis Securities Limited

**of up to 5,000,000 Ordinary Shares of 10p each at a price of 120p per share
Admission to the Alternative Investment Market**

SHARE CAPITAL

The following table shows the authorised and issued share capital of the Company immediately following the Placing and Admission:

| <i>Authorised</i> | | | <i>Issued and fully paid*</i> | |
|-------------------|---------------|-----------------------------|-------------------------------|---------------|
| <i>Number</i> | <i>Amount</i> | | <i>Number</i> | <i>Amount</i> |
| 50,000,000 | £5,000,000 | Ordinary Shares of 10p each | 26,100,000 | £2,610,000 |

* Assuming that the 250,000 Ordinary Shares set aside for employees of the Group and persons connected with them are fully subscribed.

The Placing Shares will, on Admission, rank *pari passu* in all respects with the Ordinary Shares in issue at the date of this document and will rank in full for all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of admission to trading on AIM.

Numis Securities Limited, which is a member of the London Stock Exchange plc and is regulated by the Financial Services Authority, has agreed to act as the nominated adviser and nominated broker to the Company. Persons receiving this document should note that, in connection with the Placing and Admission, Numis Securities Limited is acting exclusively for the Company and no-one else and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Numis Securities Limited or for advising any other person on the transactions and arrangements described in this document.

This document does not constitute an offer to sell or the solicitation of an offer to buy shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in or into the United States, Canada, Australia, the Republic of Ireland, South Africa, Israel, or Japan. The Ordinary Shares have not been and will not be registered under the applicable securities laws of the United States, Canada, Australia, the Republic of Ireland, South Africa, Israel or Japan, or in the name of any national resident or citizen of the United States, Canada, Australia, the Republic of Ireland, South Africa, Israel or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Copies of this document are available free of charge during normal business hours on any weekday (except Saturdays and public holidays) at the offices of Numis Securities Limited, Cheapside House, 138 Cheapside, London EC2V 6LH for a period of 1 month from the date of Admission.

THIS PAGE INTENTIONALLY LEFT BLANK

CONTENTS

| | <i>Page</i> |
|---|-------------|
| DIRECTORS AND ADVISERS | 4 |
| PLACING STATISTICS | 5 |
| KEY INFORMATION | 6 |
| PART ONE | |
| 1.1. Introduction | 8 |
| 1.2. History and Development of the Group | 8 |
| 1.3. Insurance Industry Overview | 8 |
| 1.4. THB's Strengths | 9 |
| 1.5. Strategy | 10 |
| 1.6. Opportunities for Organic Growth | 10 |
| 1.7. Admission to AIM and Use of Proceeds | 11 |
| 1.8. Summary of the Business | 11 |
| 1.9. Financial Information | 15 |
| 1.10. Current Trading and Prospects | 16 |
| 1.11. Directors & Employees | 16 |
| 1.12. Dividend Policy | 18 |
| 1.13. The Placing | 18 |
| 1.14. Lock-In Arrangements | 18 |
| 1.15. Corporate Governance | 18 |
| 1.16. Share Incentives | 19 |
| 1.17. CREST | 19 |
| PART TWO – RISK FACTORS | 20 |
| PART THREE – FINANCIAL INFORMATION | |
| 3.1. THB Group | 21 |
| 3.2. TLC Group | 45 |
| PART FOUR – PROFIT FORECAST | 60 |
| PART FIVE – ADDITIONAL INFORMATION | 62 |
| DEFINITIONS AND GLOSSARY | 86 |

DIRECTORS AND ADVISERS

Directors

Victor Thompson, *Chairman and Chief Executive*

Robert Wilkinson, *Finance Director*

Gillian Cotter, *Executive Director*

David Ulph, *Executive Director*

Nigel Moorhouse, *Non-Executive Director*

Michael Holbrook, *Non-Executive Director*

all of 12 Poverest Road, Orpington, Kent BR5 2TP

Company Secretary

Michael Head

Registered Office

12 Poverest Road

Orpington

Kent BR5 2TP

Nominated Adviser and Broker

Numis Securities Limited

Cheapside House

138 Cheapside

London EC2V 6LH

Auditors to the Company

Grant Thornton (Gatwick Office)

The Explorer Building

Fleming Way

Manor Royal

Crawley

West Sussex RH10 9GT

Reporting Accountants

Grant Thornton

Grant Thornton House

Melton Street

Euston Square

London NW1 2EP

Solicitors to the Company and to the Placing

DJ Freeman

43 Fetter Lane

London EC4A 1JU

Principal Bankers

Lloyds TSB Bank plc

PO Box 787

First Floor

St Georges House

6 Eastcheap

London EC3M 1AE

Registrars

Capita IRG Plc

Bourne House

34 Beckenham Road

Beckenham

BR3 4TU

PLACING STATISTICS

| | |
|---|---------------|
| Placing Price per Ordinary Share | 120 pence |
| Number of Ordinary Shares to be placed* | 5,000,000 |
| Market capitalisation at the Placing Price* | £31.3 million |
| Number of Ordinary Shares in issue following the Placing* | 26,100,000 |
| Percentage of enlarged issued share capital subject to the Placing* | 19.2% |
| Gross proceeds of the Placing* | £6.0 million |
| Net proceeds of the Placing* | £5.2 million |

* assuming that the 250,000 Ordinary Shares set aside for employees of the Group and persons connected with them are fully subscribed

EXPECTED TIMETABLE

| | |
|---|----------------|
| Admission and dealings in the Ordinary Shares to commence on AIM | 1 October 2002 |
| CREST accounts enabled in relation to the Ordinary Shares and settlement of Ordinary Shares through CREST | 1 October 2002 |
| Despatch of definitive share certificates (where applicable) by | 8 October 2002 |

KEY INFORMATION

The following summary should be read in conjunction with the full text of this document from which it is derived.

Introduction

THB is a UK based niche insurance broking group, having at its core a Lloyd's broking business, providing services to clients predominantly in the US and the UK. It places insurance business and enjoys long-standing relationships with underwriters both within and outside Lloyd's. THB develops insurance solutions that are tailored to suit the specific requirements of its clients. It acts as a wholesaler for other intermediaries both in the UK and abroad as well as providing broking services to a range of retail insurance clients, from Formula One racing drivers to international corporate clients. The Group has a strong presence in certain niche areas of insurance in the Lloyd's market, such as motorsport, motor fleet and North American property. Until the acquisition of TLC in December 2001 growth was largely organic.

Admission to AIM and Use of Proceeds

The Directors consider that the Group is at the stage in its development where expansion is the key to continued success and that the market is ripe for consolidation in both the London and provincial markets. They believe that many insurers are keen to work with fewer, larger broking houses whilst avoiding reliance on the global brokers (especially in the London market). The insurance broking industry is a fragmented market with a large number of small and medium sized broking firms and a small number of global broking houses. The Directors believe that economic forces, regulatory pressure and improvements in information technology suggest that the industry will soon go through a process of consolidation at a faster pace than hitherto. In their opinion, over the next few years there will be opportunities to make strategic acquisitions which would further diversify the Group's activities into a greater number of specialist niches.

A number of potential acquisitions have been identified, although the Group is currently not in advanced discussions in relation to any of them. It is, therefore, the Group's objective to grow substantially its turnover in the forthcoming years. As at the date of this document (and subject to the Placing Agreement becoming unconditional in all respects and not being terminated in accordance with its terms) commitments have been received under the Placing in respect of 4,750,000 Ordinary Shares (representing £5.7 million at the Placing Price). A further 250,000 Ordinary Shares (representing £0.3 million at the Placing Price) are being made available to employees of the Group and persons connected with them. In addition to the funds proposed to be raised in the Placing, as at 30 April 2002 THB had available cash of £6.3 million, out of which payments of approximately £3 million were still to be made in respect of certain accruals.

THB's Key Strengths

Strong market reputation in specialist business lines

The Group has a strong reputation in the London market for US property, UK motor fleet and motor sport sectors, and within these has particular expertise in its specialist areas of US catastrophe, heavy haulage and coaches and on and off track motor sport risks.

Long established presence in the London market

The Group has a long history in niche business supported by experienced broking staff. The Directors believe that the Group's relationships with underwriters have proved important in the post September 11th environment in which underwriters have been particularly selective in relation to the risks that they accept.

Management track record of delivering performance

The Directors believe that the management team has demonstrated its ability to deliver organic growth and to integrate acquisitions. The majority of the operational management has been with the Group's business for a considerable period of time. The Directors consider that the organic growth achieved and low turnover of key broking and support staff are reflections of the culture developed by the management team.

Experienced broking teams

THB has built broking teams with considerable experience in their respective fields, which have also established long term relationships with clients and underwriters. Within each team there is a balanced profile of ages and key staff are subject to the lock-ins associated with the AIM Admission.

Ability to succeed in a changing environment

The Directors recruited open market broking staff in 1999 and 2000 to prepare for the move they expected in the market from binding authorities to open market business. During 2001 the benefits of this were already clear from the increased open market business being undertaken when the events of September 11th reinforced the trend. The Directors consider that as a result of this foresight THB was able to limit the adverse effects, demonstrating the Group's ability to react and succeed in a rapidly changing environment.

Summary Financial Information on the THB Group:

| | <i>Forecast six months ending 31 October 2002 £'000s</i> | <i>Year ended 30 April 2002 £'000s</i> | <i>Year ended 30 April 2001 £'000s</i> | <i>Year ended 30 April 2000 £'000s</i> |
|---|--|--|--|--|
| Turnover | | | | |
| Continuing activities ⁽ⁱ⁾ | 10,000 | 11,859 | 11,294 | 7,995 |
| Continuing activities ⁽ⁱⁱ⁾ | — | — | 907 | 424 |
| Acquired activities | — | 3,487 | — | — |
| | 10,000 | 15,346 | 12,201 | 8,419 |
| Operating profit | | | | |
| Continuing activities ⁽ⁱ⁾ | 1,300 | 2,536 | 1,934 | 973 |
| Continuing activities ⁽ⁱⁱ⁾ | — | — | 907 | 424 |
| Acquired activities | — | 432 | — | — |
| | 1,300 | 2,968 | 2,841 | 1,397 |
| Profit before tax | 1,500 | 3,326 | 3,179 | 1,434 |
| Amortisation | 181 | 125 | — | — |
| Profit before tax and amortisation | 1,681 | 3,451 | 3,179 | 1,434 |
| Diluted EPS | 4.5p | 13.3p | 11.7p | 5.4p |

Notes:

(i) Income derived from brokerage and financial services clients.

(ii) Included in turnover and profit for the year ended 30 April 2001 was income of £907,000 received as overriding commissions from insurers (year ended 30 April 2000: £424,000). However in the year to April 2002 there was no such income nor had any such income been generated prior to the year ended 30 April 2000.

Current Trading, Prospects and Profit Forecast

Since the beginning of 2001 a significant hardening of market conditions has taken place, which has been reflected in substantially increased premium rates and tightening of policy terms. The events of September 11th gave further momentum to rate increases across the industry, as well as causing dramatic losses, particularly to the Lloyd's market, which was already suffering from substantial losses in its 1998 to 2000 underwriting years. The Directors believe that the present hard market conditions affecting the Group's business are likely to continue for some time.

The trading environment for THB in this financial year has been considerably more stable than that seen in the second half of its last financial year, although the events of September 11th continued to affect the business into the current year. In the post September 11th environment the absolute level of insurance premiums has continued to increase significantly in most sectors, although this has to some extent been balanced by downward pressure on brokerage rates.

The nature of THB's business is such that operating costs are relatively predictable and therefore the Directors feel confident in being able to forecast for the six months to 31 October 2002 turnover of £10.0 million and a profit before tax of not less than £1.5 million. Apart from bonuses, which are linked to profits, the cost base of the Group is largely fixed. The Directors expect that revenue will be marginally biased in favour of the second half and therefore the Directors are encouraged by the prospects for the full year.

Dividend Policy

Had the ordinary shares been listed throughout the year ended 30 April 2002, and before taking account of any notional funds raised, the Directors would have expected to recommend net dividends totalling 5.3 pence per share for that year which would have been payable as to one third as an interim dividend and two thirds as a final dividend. These dividends would have been covered by earnings 2.5 times. The Directors intend to pursue a progressive dividend policy.

PART ONE

INFORMATION ON THE GROUP

Introduction

THB is a UK based niche insurance broking group, having at its core a Lloyd's broking business, providing services to clients predominantly in the US and the UK. It places insurance business and enjoys long-standing relationships with underwriters both within and outside Lloyd's. THB develops insurance solutions that are tailored to suit the specific requirements of its clients. It acts as a wholesaler for other intermediaries both in the UK and abroad as well as providing broking services to a range of retail insurance clients, from Formula One racing drivers to international corporate clients. The Group has a strong presence in certain niche areas of insurance in the Lloyd's market, such as motorsport, motor fleet and North American property.

In common with other insurance brokers, THB takes no underwriting risk but acts as an intermediary between insured and insurer and endeavours to serve the interests of both parties by its close knowledge of the market and its clients. THB's business is spread across a number of sectors which is intended to provide the Group with a degree of security against fluctuations in insurance cycles for different risk areas.

The Group operates from five major sites in the UK, employing approximately 250 people. Each main business line within the Lloyd's broking side of the business, and each provincial location, is treated as a separate profit centre. The Group is organised into two main divisions which operate the Lloyd's and the non-Lloyd's broking businesses respectively.

History and Development of the Group

The origins of the Group lie in the formation by Victor Thompson of Thompson Heath & Bond Limited in 1968. Until the acquisition of TLC in December 2001, which was a significant step in the Group's development, growth was largely organic.

Over the years THB has developed as a motor fleet, retail and wholesale UK non-marine insurance broker, with an established regional presence in Glasgow and Leeds. However its flagship division for many years has been the North American Division, which places property and casualty business into Lloyd's.

In November 2000 the Group purchased the business of White & Wilson, a specialist broker serving the media industry and in December 2001 the TLC acquisition was completed. Prior to this acquisition, the revenue of the THB Group was derived predominantly from wholesale activities. TLC brought a retail client base to THB and an additional financial services business. TLC operates from offices in Leamington Spa and London, and specialises in the insurance requirements of the motorsport, general aviation and the photographic industries, amongst others.

Insurance Industry Overview

Insurance broking

Insurance brokers act on behalf of clients by placing insurance with one or more underwriters on suitable rates and coverage terms. An insurance broker uses its knowledge of the insurance market, the client's business and the sector in which the client operates to structure insurance solutions for its clients based on an analysis of the client's risk profile, exposures and particular insurance needs. A broker may seek to place insurance for another broker (wholesale broking) or to place insurance directly for the insured (retail broking). A broker may also facilitate the payment of premiums and the administration of claims, which can be logistically complex where many different insurers participate in underwriting portions of the same risk. A broker generally acts as agent for the insured.

A broker may also agree insurance with the insured based on a binding authority granted to it by the insurer. A binding authority is an arrangement whereby underwriters agree to delegate underwriting authority to the broker and are bound by insurances entered into by the broker on their behalf. Such facilities tend to be in respect of specified classes of insurance and have set parameters within which the broker has authority. Brokers take no actual underwriting risk.

Insurance brokers derive their income principally from commission or fees for broking services, and from investment income. Broking commission is typically calculated as a percentage of premiums. An alternative arrangement for broker remuneration is a fixed fee. The amount of brokerage income earned is a function of the number of clients, the aggregate amount of premiums payable by those clients to insurers and the rate at which the commission or fee is charged.

A broker generally acts as intermediary in the transmission of funds between insured and insurer. For the period that the broker holds funds in transmission he is entitled to retain the investment income on the cash held prior to its remittance to the insurer or insured as appropriate. The amount of investment income that a broker earns is broadly a function of the aggregate amount of premiums paid by clients to the broker as intermediary, the amount of the insured losses for which claims are settled through the broker as intermediary, settlement terms and interest rates. A client will generally pay an insurance premium to the broker, which deducts its broking commission and remits the balance to the insurer. Insurance broking does not involve the assumption of underwriting risk on insurance placed. Brokers may sometimes benefit from profit commission when the risks they introduce produce significant profit for underwriters after they have met claims and expenses.

Market conditions

Since the beginning of 2001 a significant hardening of market conditions has taken place, which has been reflected in substantially increased premium rates and tightening of policy terms. The events of 11 September 2001 gave further momentum to rate increases across the industry, as well as causing dramatic losses, particularly to the Lloyd's market, which was already suffering from substantial losses in its 1998 to 2000 underwriting years.

This period has been accompanied by a significant reduction in underwriting capacity in the UK market, including the insolvencies of Independent Insurance Company and HIH, as well as the withdrawal of a number of other insurers from lines of business previously underwritten. This has been counterbalanced in some areas by the raising of new insurance capital in both London and, particularly, Bermuda.

The Directors believe that the present hard market conditions affecting the Group's business are likely to continue for some time.

Market consolidation

The insurance broking industry is a fragmented market with a large number of small and medium sized broking firms and a small number of global broking houses. The Directors believe that economic forces, regulatory pressure and improvements in information technology suggest that the industry will soon go through a process of consolidation at a faster pace than hitherto. In their opinion, over the next few years there will be opportunities to make strategic acquisitions which would further diversify the Group's activities into a greater number of specialist niches and substantially increase the Group's turnover. The factors that they consider are likely to give rise to such acquisition opportunities include:

- Insurers wishing to have closer relationships with large broking houses.
- Changes in the Lloyd's market which will see it write more primary insurance, as treaty business is likely to move to markets such as Bermuda which can operate this class of business at lower cost. The Directors believe that THB has the ability to introduce significant volumes of primary business which will enhance its position within the Lloyd's market.
- The potential burden of forthcoming regulation of general insurance by the FSA, which may be proportionately greater on smaller brokers.
- The large number of key shareholders in the industry approaching retirement age, as highlighted in the January 2002 UK Broker and Intermediary report produced by IMAS Corporate Finance.

THB's Strengths

● Quality of broking

Philosophy of exceeding expectations

THB's philosophy is to develop the right solution for clients in its areas of specialism. THB seeks not only to provide insurance that meets the needs of the client but also to ensure that underwriters are not asked to quote for business with a low likelihood of winning it. THB nonetheless pursues a robust approach when acting on behalf of clients. THB maintains good and long-standing relationships with both underwriters and clients and the Directors believe that this demonstrates a keen understanding of their respective needs over time.

Strong market reputation in specialist business lines

The Group has a strong reputation in the London market for US property, UK motor fleet and motor sport sectors, and within these has particular expertise in its specialist areas of US catastrophe, heavy haulage and coaches and on and off track motor sport risks.

Long established presence in the London market

The Group has a long history in niche business supported by experienced broking staff. The Directors believe that the Group's relationships with underwriters have proved important in the post September 11th environment in which underwriters have been particularly selective in relation to the risks that they accept.

● **Quality of staff**

Management track record of delivering performance

The Directors believe that the management team has demonstrated its ability to deliver organic growth and to integrate acquisitions. The majority of the operational management has been with the Group's business for a considerable period of time. The Directors consider that the organic growth achieved and low turnover of key broking and support staff are reflections of the culture developed by the management team.

Experienced broking teams

THB has built broking teams with considerable experience in their respective fields, which have also established long term relationships with clients and underwriters. Within each team there is a balanced profile of ages. Key staff are not only subject to the lock-ins associated with Admission but each senior producer is also bound contractually by restrictive covenants should the producer leave the Group.

● **Ability to succeed in a changing environment**

The Directors recruited open market broking staff in 1999 and 2000 to prepare for the move they expected in the market from binding authorities to open market business. During 2001 the benefits of this were already clear from the increased open market business being undertaken when the events of September 11th reinforced the trend. The Directors consider that as a result of this foresight, THB was able to limit the adverse effects, demonstrating the Group's ability to react and succeed in a rapidly changing environment.

● **Delivering performance**

As illustrated in the financial information set out in Part Three of this document, THB has shown a successful track record of growth and the TLC acquisition has added a profitable and established business. Turnover during the two years to 30 April 2002 increased by 45% in the year to 30 April 2001 and by 26% in 2002, whilst profit before tax improved by 122% in 2001 and 5% in the difficult year to 30 April 2002. Fully diluted earnings per share increased by 117% and 14% respectively.

Strategy

THB has achieved its greatest success (in terms of organic growth) where it has been able to attract individuals or teams to join what is already a successful department. The Directors believe that the benefit of this approach is that an enlarged department has greater bargaining power leading to the acquisition of new business. One example of this is the North American Division set up by David Ulph in 1982. It was augmented by a team headed up by Edward Close-Smith of four people in 1996 and by another team of four in 1997 led by Roland Owen.

In common with other services businesses, client retention is extremely important to THB. In the case of retail business the client relationship is with the insured whereas for the wholesale departments the relationship is with the producing intermediary. THB also strives to add value to both clients and underwriters. Recently the Group introduced a document management system that currently allows its North American binding authority insurers to search and extract specific information from the system relating to the risks written on their behalf. This might be searched and sorted by postcode, or insurance type, or other category as required. In addition, based on the requirements of the insurer, the system will generate an automatic email alert to the insurer as new documents are added (and therefore new risks written). THB believe that this email facility is unique in the market. DMS allows underwriters to monitor their exposure to certain risks for reinsurance purposes. The Directors believe this will assist underwriters with their regulatory obligations. They consider that such "added value" services demonstrate THB's high level of understanding of insurers' needs.

Opportunities for Organic Growth

In the event that there is an increased commitment to binding authority business by insurers, the Directors believe that they are likely to delegate such authority to those brokers with an efficient payment record and who offer the underwriter assistance with risk monitoring. THB Limited has a current record of paying only 2.5% of premiums after the agreed timescale, compared to Lloyd's market average of 15%, and has had an encouraging reception to its DMS monitoring system since its launch in June 2002.

Whilst the Directors have seen no sign of a return to a soft market in the near future, they expect that it will inevitably occur in due course. In the opinion of the Directors, THB has the ability to react to changing market conditions which will stand the Group in good stead in the eventual return to a soft market.

Admission to AIM and Use of Proceeds

The Directors consider that the Group is at the stage in its development where expansion is the key to continued success and that the insurance intermediaries market is ripe for consolidation in both the London and provincial markets. They believe that many insurers are keen to work with fewer, larger broking houses whilst avoiding reliance on the global brokers (especially in the London market). A number of potential acquisitions have been identified, although the Group is currently not in advanced discussions in relation to any of them. The Directors have concluded that the opportunities in the market are such that it is important to seek a quotation for the Company's shares at this time. This will provide the Group with the financial strength and marketable securities to undertake such a course.

Acquisitions will only be made that the Directors believe will prove a good fit with the current business strategy of the Group and whose cultures will not clash with that of THB. It is, therefore, the Group's objective to grow substantially its turnover in the forthcoming years. At this stage it is not the Directors' intention to use the funds raised to pay down Group debt, although if suitable acquisitions (for whatever reason) are not made within a reasonable period, the funds will be used for this purpose and for working capital to focus further on the organic growth of the business.

As at the date of this document (and subject to the Placing Agreement becoming unconditional in all respects and not being terminated in accordance with its terms) commitments have been received under the Placing in respect of 4,750,000 Ordinary Shares (representing £5.7 million at the Placing Price). A further 250,000 Ordinary Shares (representing £0.3 million at the Placing Price) are being made available to employees of the Group and persons connected with them.

In addition to the funds proposed to be raised in the Placing, as at 30 April 2002 THB had available cash of £6.3 million, out of which payments of approximately £3 million were still to be made in respect of certain accruals. Available cash represents the Group's own cash balances together with net IBA insurance balances less the solvency margin that is required to be maintained by the Group's insurance broking subsidiaries in accordance with the requirements of the GISC.

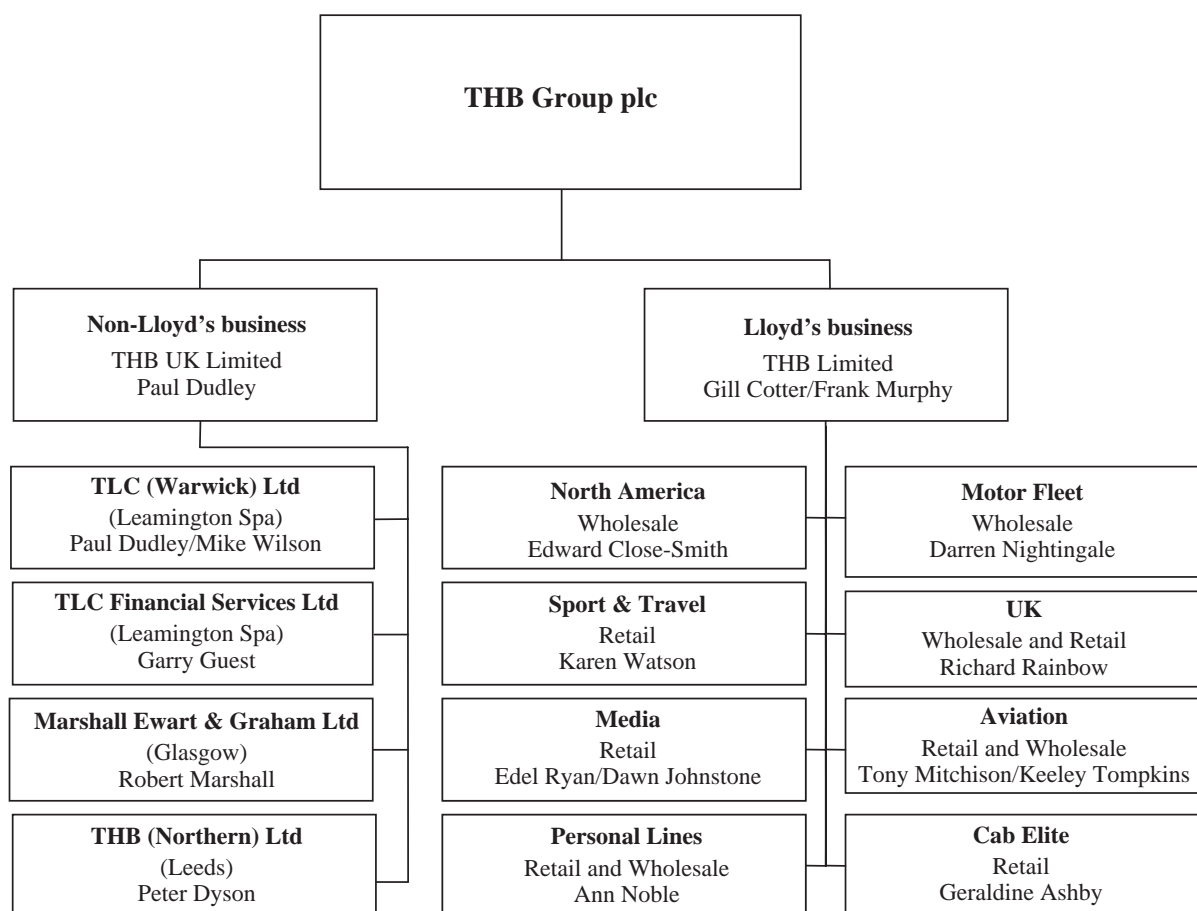
Summary of the Business

The Group is divided, for operational management purposes, into the Lloyd's and non-Lloyd's businesses. Reporting into the main Group Board are three sub-boards – the Group's operations board, responsible for co-ordinating the day to day operation of the central services departments of the Group, and the Lloyd's and non-Lloyd's boards. The latter two, each chaired by Victor Thompson, are responsible for the strategic development of the respective lines of business. Recommendations for projects, major changes in business strategy or potential acquisitions are made by each of these to the main Group Board.

THB has twelve profit centres, all run as client-focused business units served by central service departments. The profit centres each encompass the differing skills necessary to operate within their specialist fields and are given a high degree of autonomy.

Group structure

The chart set out below shows how the different business units fit into the Group.



Lloyd's business

The Lloyd's operation is based in London and Orpington, and includes eight of the twelve profit centres. Following the acquisition of TLC, and effective from the beginning of the current financial year, the profit centres have been reorganised to combine the TLC Lloyd's operation with that of THB which the Directors believe will optimise the efficient use of the skills of both. The profit centres, which are organised as divisions of the Lloyd's broker, are:

North America

The North American Division is THB's largest profit centre and one that has grown significantly over the past 6 years, largely as a result of the recruitment of staff from within the broking community. During this period the division has derived the majority of its income from binding authorities granted by underwriters, primarily covering catastrophe prone areas. This business is brought to THB by wholesale brokers predominantly in the USA and Canada. The cover placed by THB includes risks such as a block of condominiums in Florida or terrorism cover for a high-rise office building in New York. These and similar risks are usually placed by THB in Lloyd's, although the Bermuda market is playing an increasing role.

In 1999 the Directors concluded that it was likely that the market would see a move away from binding authorities to open market business. In order to be prepared for this move and to benefit from it THB recruited brokers with particular expertise in broking North American derived business in the open market. During 2001 the division continued the process of moving the emphasis away from binding authorities, believing that insurers were also attempting to alter their own business profile in a similar manner.

This strategy had already achieved an increase in open market business when the events of September 11th created a hiatus in which it proved difficult for THB to place business and reinforced the shift towards the open market. For a period this caused a marked drop in revenue derived from North America. Additional open market business secured in the 6 months ended 30 April 2002 largely offset the reduction in binding authority business.

The Directors were encouraged by this achievement in difficult conditions, which they consider illustrates the division's ability to react and succeed in a rapidly changing and testing environment. They also believe that the division is now well placed to benefit irrespective of whether market sentiment moves towards the open market or binding authorities.

Motor Fleet

The Motor Fleet Division handles wholesale motor fleet business with a higher than usual exposure. This may be heavy haulage or coach business, or a fleet with a poor claims record. This division is showing healthy growth this year as a result of the withdrawal of many insurance companies from underwriting fleet business. The resultant difficulty in placing motor fleet business has proved an opportunity for the division to win new wholesale business that the retail broker has been unable to place directly. THB has the experienced personnel and relationship with the underwriters which allow it to place these risks.

Sport and Travel

The Sport and Travel Division focuses primarily on risks associated with motorsport, including accident and health and on and off track physical damage to race and rally cars. The division is expanding into other sports areas including rugby and golf, and it also places war risks associated with journalists working in hostile environments and their equipment. The division works closely with the non-Lloyd's brokerage in Leamington Spa, which trades under the TLC brand. It handles the specialist requirements of Formula One teams such as personal accident for the driver or insurance for the race cars and equipment while in transit to a grand prix which are generally placed in the Lloyd's market. The division also handles high volume travel schemes for tour operators and other intermediaries.

UK

The UK Division handles non-marine business for both retail and wholesale clients. The division is newly formed this year from an amalgamation of previous divisions from the TLC and THB operations. For several years THB has placed significant amounts of UK terrorism business and in the current climate the level of business in this area has increased substantially. At the present time, as noted in the Press, liability risks are proving difficult to place as many insurance companies are no longer writing liability business. One of the strengths that TLC has brought to this division is a number of new relationships in the London liability market, and the Directors believe that this has been instrumental in obtaining new orders for the Group.

Other Lloyd's profit centres

The other Lloyd's profit centres, whose revenues together currently account for approximately 13 per cent of the Lloyd's operations and 9 per cent of the Group, are the Media Division (which places insurance for advertising agencies and commercial producers, and is based on the White & Wilson business purchased in November 2000), the Aviation Division (handling insurance for light aircraft and gliders, with some helicopter and business jet risks), Personal Lines (offering household and personal accident insurance for clients of other divisions) and Cab Elite (handling private hire taxi insurance).

Non-Lloyd's business

The non-Lloyd's operation comprises a combination of brokerage and financial services operations, operating from three sites in Leamington Spa, Leeds and Glasgow.

Leamington Spa

The Leamington Spa offices house the non-Lloyd's part of TLC. It comprises two companies: T L Clowes (Warwick) Limited ("TLCW"), which is a non-Lloyd's brokerage, and T L Clowes Financial Services Limited ("TLCFS"), which provides financial advice to clients of the other divisions.

TLCW principally derives its brokerage from the motorsport, automotive and photographic industries. This includes the commercial insurance arranged for clients of the Sport and Travel Division of the Lloyd's operation – for example the insurance of a factory of a Formula One team.

In view of the anticipated consolidation in the broking market TLCW intends to draw on wide broking contacts in the area to bring in small firms and sole traders as additional teams within the TLCW business.

TLCFS works in conjunction with the other TLC units so that TLC can provide a more comprehensive service to corporate clients encompassing insurance and other financial broking needs. For example, TLCFS handles the pension schemes of some of TLC's motorsport clients. The Directors believe that a general brokerage without a financial services capability may lose insurance business to a client's financial services provider. Historically TLCFS has concentrated on providing pension schemes and other employee

benefits to corporate clients. The integration of TLC into THB has provided an opportunity for TLCFS to sell financial services to clients of the wider Group, and it will provide a financial services capability particularly to the Leeds office. The combined financial services businesses based in Leamington Spa and Glasgow represent approximately 9% of Group turnover.

Leeds

Thompson Heath & Bond (Northern) Limited (“Northern”) was formed in 1994 and provides a commercial broking service in the Leeds area, although the retention of personal contacts over time has resulted in clients being located throughout the UK. Amongst other risks, Northern specialises in the property and heavy haulage industries.

Glasgow

Marshall Ewart & Graham Limited (“MEG”) combines both a general broking capability and a financial services capability. MEG has begun to benefit from the higher levels of commission earned by TLCFS with certain financial institutions.

Until they were acquired in October 2001, MEG and Northern were associated companies to THB, being indirectly owned as to 20 per cent by THB and 80 per cent by Victor Thompson. Despite the legal ownership they were operated as integral parts of the Group. Even prior to 2001 THB incurred all of the operating expenses of MEG and Northern and the entirety of their net income was paid to THB by way of a management charge until their acquisition in October 2001, which is highlighted in the Group profit and loss account under “other operating income”.

Financial Information

Set out below is summary financial information on THB and on the TLC Group prior to its acquisition. Investors should also read the financial information set out in Part Three of this document.

THB Group

| | <i>Forecast six months ending 31 October 2002 £'000s</i> | <i>Year ended 30 April 2002 £'000s</i> | <i>Year ended 30 April 2001 £'000s</i> | <i>Year ended 30 April 2000 £'000s</i> |
|--|--|--|--|--|
| Turnover | | | | |
| Continuing activities ⁽ⁱ⁾ | 10,000 | 11,859 | 11,294 | 7,995 |
| Continuing activities ⁽ⁱⁱ⁾ | — | — | 907 | 424 |
| Acquired activities | — | 3,487 | — | — |
| | 10,000 | 15,346 | 12,201 | 8,419 |
| Operating profit | | | | |
| Continuing activities ⁽ⁱ⁾ | 1,300 | 2,536 | 1,934 | 973 |
| Continuing activities ⁽ⁱⁱ⁾ | — | — | 907 | 424 |
| Acquired activities | — | 432 | — | — |
| | 1,300 | 2,968 | 2,841 | 1,397 |
| Profit before tax | 1,500 | 3,326 | 3,179 | 1,434 |
| Amortisation | 181 | 125 | — | — |
| Profit before tax and amortisation | 1,681 | 3,451 | 3,179 | 1,434 |
| Diluted EPS | 4.5p | 13.3p | 11.7p | 5.4p |
| Notes | | | | |
| (i) Income derived from brokerage and financial services clients. | | | | |
| (ii) Included in turnover and profit for the year ended 30 April 2001 was income of £907,000 received as overriding commissions from insurers (year ended 30 April 2000: £424,000). However in the year to April 2002 there was no such income nor had any such income been generated prior to the year ended 30 April 2000. | | | | |
| (iii) Acquired activities during the year to 30 April 2002 are included within continuing activities for the following period, in accordance with applicable accounting standards. | | | | |

TLC Group

| | <i>Period ended 20 December 2001 £'000's</i> | <i>Year ended 31 March 2001 £'000's</i> | <i>Year ended 31 March 2000 £'000's</i> |
|-----------------------------------|--|---|---|
| Turnover | 4,039 | 5,513 | 4,740 |
| Exceptional charge ⁽ⁱ⁾ | (439) | (140) | — |
| Operating profit/(loss) | (891) | 725 | 77 |
| Profit/(loss) before tax | (673) | 1,078 | 429 |

Notes

- (i) Exceptional charge relates to the bad debt incurred as a result of the insolvency of Independent Insurance Company Limited.
(ii) The business of TLC is seasonal, with the most profitable period historically occurring towards the end of its financial year.

Current Trading, Prospects and Profit Forecast

The trading environment for THB in this financial year has been considerably more stable than that seen in the second half of its last financial year, although the events of September 11th continued to affect the business into the current year. In the post September 11th environment the absolute level of insurance premiums has continued to increase significantly in most sectors, although this has to some extent been balanced by downward pressure on brokerage rates.

The nature of THB's business is such that operating costs are relatively predictable and therefore the Directors feel confident in being able to forecast for the six months to 31 October 2002 turnover of £10.0 million and a profit before tax of not less than £1.5 million. Your attention is drawn to the profit forecast and related report and comment on the interim comparative results set out in Part Four of this document.

Apart from bonuses, which are linked to profits, the cost base of the Group is largely fixed. The Directors expect that revenue will be marginally biased in favour of the second half and therefore the Directors are encouraged by the prospects for the full year.

Directors and Employees

Directors

Victor Thompson, Chairman and Chief Executive (58)

Vic entered the insurance industry from school at age 16 working initially for Sun Insurance Office and subsequently for three broking houses, two of which were Lloyd's brokers (Steel Brothers & Higgins and Hogg Robinson). On completing his insurance exams (Associate of the Chartered Insurance Institute) in May 1968 at the age of 23 Vic formed what is now THB Limited, which was subsequently admitted as a firm of Lloyd's brokers in 1977. Vic has focused particularly on the financial side of THB, and undertook the role of Finance Director as well as Chairman until April 2002.

Gillian Cotter, Executive Director (56)

Gill joined THB Limited in July 1979 as Policy Department Manager. As the company grew Gill took on responsibility for the support functions of the Group. She chairs the Group operational board, and is responsible for IT, human resources, compliance and marketing, and for the day to day operations of the Group. Gill was appointed as a Director of THB Limited in October 1992 and as Managing Director of that company in May 1996. She was appointed to the Board in April 1996 and until December 2001 was also the Group Company Secretary.

David Ulph, Executive Director (53)

David started his insurance career at E W Payne in 1968. Thereafter he was a founding director of a non Lloyd's broker – Greenwood Priest & Green Limited ("GPG") established in 1977. David developed GPG's North American wholesale business as well as placing business emanating from London into the US reinsurance market. In 1982 he joined THB Limited and established the North American Division. David was appointed managing director of THB Limited in 1986 and held this position until taking up the Deputy Chairmanship of THB Limited in 1996. David was appointed to the Board in January 1982 and is currently responsible for strategic development of the Lloyd's business and the identification of any opportunities that will build and further strengthen the group's future development.

Robert Wilkinson, Finance Director (44)

Rob joined Price Waterhouse from London University in 1979, qualifying as a chartered accountant in 1982. After completing a secondment to National Westminster Bank and then four years as a senior manager in PW's Corporate Finance division, Rob left in 1992 to join Campari International plc as UK Finance Director. He moved to Niagara Healthcare plc as Group Finance Director in 1995, rising to Group Managing Director. In 1999, he left Niagara to become Finance Director of AIM-listed medical devices company, Veos plc and subsequently became Chief Operating Officer. He joined the Board as Group Finance Director in May 2002.

Nigel Moorhouse, Non-Executive Director (43)

Nigel joined Standard Chartered Bank in 1980 on the overseas staff after graduating with a degree in Economics. He moved to Arthur Andersen with whom he qualified as a chartered accountant in 1987. He then joined Mynshul Group plc as Finance Director (a subsidiary of Swinton Holdings Limited, an insurance and private banking group). In 1991 Swinton was purchased by Royal & Sun Alliance and following this acquisition Nigel was appointed Managing Director of Mynshul Group plc in 1992. He was

responsible for the relationship with the compliance bodies IMRO, FIMBRA and the Bank of England and was a member of the group audit and credit committees. In 1997 he acquired the portfolio of the banking assets from the Mynshul Group. He was appointed to the Board as a non-executive Director in April 2000.

Michael Holbrook, Non-Executive Director (55)

Mike obtained a law degree in 1968 and was admitted as a solicitor whilst at Varley Hibbs in Coventry a firm of which he became a partner in 1973. He specialised in company and commercial law and was the managing partner of this division for many years. During his career with Varley Hibbs, Mike acted for a number of motor racing teams and several IT and engineering companies. Mike retired from private practice in 1994 and subsequently accepted posts with several companies, becoming a non-executive director of TLCIS in 1995 and then the Company upon the acquisition of TLC in December 2001.

Senior operational management

Francis Murphy, Chief Operating Officer, Lloyd's Business (43)

Frank entered the insurance industry at the age of 16. He developed his Lloyd's broking career within a number of Lloyd's brokers including the predecessors to Jardine Lloyd Thompson, Marsh and Aon before moving to Arthur J. Gallagher ("AJG"). During his 14 years at AJG, he held senior positions within the Aviation Department and the North American Division. At AJG he was responsible for the North American property casualty business, which remains his particular area of expertise. He joined THB Limited in December 1999 as part of the management team and was appointed to the board of that company in February 2000. He assumed his present role of Chief Operating Officer of THB Limited in November 2001 with particular emphasis on business development and production.

Karen Watson, Executive Director, Sport and Travel Division (40)

Karen joined TLC from school at the age of 16 in 1978, which was shortly after TLCC's registration in 1977, and came to specialise in the niche of motorsport and personal accident business placed into Lloyd's. Karen was appointed Managing Director of TLCC in 1996 at which time she purchased the whole of the issued share capital of TLCIS with Paul Dudley. In December 2001 she was appointed to the Board of THB Limited when THB acquired TLC.

Paul Dudley, Managing Director, Non-Lloyd's Business (43)

Paul started his insurance career in 1977. After 7 years' underwriting experience Paul formed the Dudley Berry Woodall insurance brokerage with two partners in 1985 and subsequently joined Independent Insurance Company three years later as the Midlands Regional Manager. In 1991 Paul was recruited to the TLC Group as Managing Director of TLCW. Following the acquisition of TLC by THB in 2001, Paul was appointed the Managing Director of THB UK Limited which is the intermediate holding company for all the non-Lloyd's broking companies in the Group.

Edward Close-Smith, Executive Director, North American Division (50)

Edward entered the insurance industry in 1974 working for the North American Division of CT Bowring and subsequently moved to Bradstock Group PLC in 1985 to set up their North American property division. Edward resigned as a director of Bradstock Blunt and Crawley in 1996 to join THB with his team. Appointed as the managing director of the North American Division, Edward has overseen the successful integration of three separate teams to form the current North American Division. Edward was appointed to the board of THB Limited in 1996.

Darren Nightingale, Director, Motor Fleet Division (32)

Darren has spent his entire career, since 1986, within the Lloyd's market specialising in underwriting and broking motor insurance. Having worked for two brokers previously, in January 1997 Darren joined THB as a New Business Producer and Broker within the Fleet Division. In June 2001 he assumed overall responsibility for the Fleet Division. In May 2002, in recognition of the continued growth of the division under his direction he was appointed to the board of THB Limited.

Michael Head, Group Financial Controller and Company Secretary (36)

Mike joined Touche Ross from university in 1987, where he qualified as a Chartered Accountant. He moved to Chubb Security PLC as a management accountant in 1993 becoming Financial Controller of Chubb Alarms Limited in 1994. He was appointed Finance Director of Stagecoach (South) Limited in 1998, and joined THB as Financial Controller in January 1999. In December 2001 Mike was appointed Company Secretary for each of the TLC companies and in January 2002 he was appointed Company Secretary of the Company.

Corinne Hepworth, Group Human Resources (41)

Having joined Harrods Limited as a Graduate Management Trainee, Corinne became Group Personnel Manager for Harrods International in 1990. Having attained an MBA in 1994 she joined Drake Insurance plc to create their personnel and training division. In October 2000 she joined the Group and is responsible for its Human Resources and Training functions.

Janis Gibson, Group Marketing & Communications (49)

Janis has worked in the insurance sector for the past 30 years, the last 20 in marketing roles. She has held the positions of Managing Director, Group Marketing & Communications at the Minet Group plc, Director of Marketing and Communications, QBE European Operations and Business Development Director of one of the Aon underwriting agencies. She had also formed her own marketing consultancy, and having worked initially with THB on a consultancy basis, joined as an employee in July 2002 as Head of Marketing & Communications for the Group.

Dividend Policy

The Placing Shares will rank in full for all dividends or other distributions declared, made or paid in respect of the ordinary share capital of the Company following Admission.

Had the ordinary shares been listed throughout the year ending 30 April 2002, and before taking account of any notional funds raised, the Directors would have expected to recommend net dividends totalling 5.3 pence per share for that year which would have been payable as to one third as an interim dividend and two thirds as a final dividend. These dividends would have been covered by earnings 2.5 times.

The Directors intend to pursue a progressive dividend policy, having regard to the earnings, cash flow and general development of the business.

The Placing

On Admission, assuming that the 250,000 Ordinary Shares made available for employees of the Group and persons connected with them are fully subscribed, the Company will have 26,100,000 Ordinary Shares in issue and a market capitalisation, based on the Ordinary Shares at the Placing Price, of approximately £31.3 million. The Placing comprises the issue of up to 5,000,000 new Ordinary Shares, representing 19.2% per cent of the issued ordinary share capital of the Company immediately following the Placing, to raise £6.0 million before expenses (£5.2 million net of expenses). Further details of the Placing are set out in paragraph 9.8 of Part Five of this document.

Following Admission the Directors will be interested in 12,403,284 Ordinary Shares, representing approximately 47.5 per cent of the enlarged issued share capital of the Company.

Lock-In Arrangements

Certain shareholders including each of the Directors have given undertakings, subject to certain limited circumstances, not without the consent of Numis to dispose of any of their shareholdings held after the placing until two years after Admission. These undertakings represent approximately 95.1 per cent of the issued share capital prior to the Placing and 76.9 per cent of the enlarged share capital.

Corporate Governance

The Company complies with the Combined Code so far as the Directors consider is practicable and appropriate for a public company of its size. Victor Thompson currently holds the positions of both Chairman and Chief Executive. Whilst the Board recognises this does not comply with the Combined Code, it is satisfied that for a Group the size of THB it is nonetheless appropriate. The Board is committed to keep this arrangement under periodic review and the issue will be formally reviewed on an annual basis.

The Group has had an audit committee for a number of years. Remuneration and risk committees were introduced in 2001. Each committee has formally delegated duties and responsibilities.

The audit and remuneration committees comprise Nigel Moorhouse (chairman), Michael Holbrook and Victor Thompson. The audit committee receives and reviews reports from the Company's auditors relating to the annual and interim accounts and the accounting and internal control systems in use throughout the Company. The audit committee has unrestricted access to the Company's auditors. The remuneration committee reviews the remuneration and benefits of executive directors and staff within the Group with a remuneration package in excess of £100,000. The remuneration committee will also administer the Company Share Option Plan and the Share Incentive Plan.

The nomination committee comprises the whole Board and is chaired by Michael Holbrook and is responsible for reviewing appointments of new directors throughout the Group.

The risk committee (comprising the whole Board and chaired by Victor Thompson) has been established to conduct a regular review of key high level risks to which the Group might be exposed. The review covers all financial and operational controls and risk management. An internal audit manager was appointed in August 2002 who reports directly to the risk committee.

Share incentives

The Directors believe that the success of the Group depends to a high degree on the future performance of the management team. The Directors also recognise the importance of ensuring that all employees are well motivated and identify closely with the profitability of the Group.

Accordingly, the Company has established the Company Share Option Plan and the Share Incentive Plan, in each case subject to Inland Revenue approval.

The Group has expanded its operations in the past by recruiting teams or individuals that the Directors consider have particular ability. It is expected that this strategy will continue. The Directors believe that an important factor in such recruitment is the ability to grant options to incoming staff or teams. The Directors have the power, at their discretion, to grant options under the Company Share Option Plan over shares not exceeding 10 per cent of the issued share capital of the Company. This limit of 10 per cent applies to both the Company Share Option Plan and the Share Incentive Plan, in aggregate, together with any other employee share plans of the Company from time to time. The absence of a specific limit for the Company Share Option Plan, within the overall limit, reflects a need for flexibility identified by the Directors.

It is anticipated that share options will be granted under the Company Share Option Plan and awards made under the Share Incentive Plan on an annual basis. In the case of options, exercise will normally be conditional upon the satisfaction of performance conditions to be set at the discretion of the remuneration committee. It is currently envisaged that exercise will be conditional upon compound growth in earnings per share of 3 per cent or more per annum (after inflation) over any three-year period.

First option grants to incoming staff or teams may be subject to different conditions and may be made at different times in the year. For example, grants may be subject to conditions set by reference to the turnover or profits of an individual business unit.

Details of the Company Share Option Plan and the Share Incentive Plan are set out in paragraph 4 of Part Five of this document.

CREST

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission and CREST has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the individual shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so. Further information is set out in the placing letters used in connection with the Placing.

PART TWO

RISK FACTORS

This Part Two contains the principal risk factors that the Directors believe to be associated with an investment in the Company. The risks listed below do not necessarily comprise all the risks associated with an investment in the Company.

Loss of clients

THB depends on continuing relationships with its clients. Most of the brokerage services on which THB earns commission are subject to renewal on an annual basis. At such time it is exposed to potential loss of some or all of its clients' business. Some clients are sufficiently significant that their loss could have a material adverse effect on the Group.

Dependence on Lloyd's

The Lloyd's market is very important for the Group. It is a requirement of many insureds that cover placed through THB is insured with an insurance carrier having an "A" rating from a recognised rating agency. If Lloyd's were to lose its current "A" ratings, a significant amount of the business currently placed with Lloyd's might have to be placed elsewhere or could be lost to the Group.

Regulation

THB's businesses are subject to regulation. THB's general insurance broking business activities are currently regulated by the GISC and its financial services businesses by the FSA. The Government has stated that its current intention is that regulation of general insurance broking activities will also be undertaken by the FSA from 2004. It is currently a requirement of the Council of Lloyd's that all admitted Lloyd's brokers with a permanent place of business in the UK are regulated by the GISC.

Failure to comply with regulations laid down by the Group's regulators could lead to disciplinary action, including the revocation of THB's authorisations to operate.

Loss of personnel

The loss of key production and operational management personnel could not only significantly impact THB's current and future trading results but also adversely affect its ability to attract to the Group the highly skilled and motivated personnel who will be the key to its future success.

World Trade Center

The events of 11 September 2001 have had significant effects on all insurance markets. If a loss of similar magnitude were to occur in the future, whether this were man-made or as the result of natural causes, the Group's future performance would be affected by its ability to adapt to the changes within the insurance industry which would undoubtedly flow from such a loss.

Liquidity of trading and potential volatility of share price

Although the Ordinary Shares will be quoted on the AIM market of the London Stock Exchange, an active trading market in them may not develop or continue, which may mean that the liquidity and trading price of the Ordinary Shares is adversely affected. In addition, the market price of the Ordinary Shares may be subject to wide fluctuations being dependent on a variety of factors including those specific to the Group, sentiment in the market on which the shares are traded, the insurance industry and the economy generally.

Currency risk

More than one third of the Group's turnover is derived from the United States. Any significant deterioration in the exchange rate of the US Dollar relative to £ sterling would be likely to have a material impact on the earnings of the Group.

Forward looking statements

This document contains forward looking statements which involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of THB to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those referred to above in this Part Two.

PART THREE
FINANCIAL INFORMATION

Chartered Accountants
UK Member of
Grant Thornton International



The Directors
THB Group plc
12 Poverest Road
ORPINGTON
Kent
BR5 2TP

and

The Directors
Numis Securities Limited
Cheapside House
138 Cheapside
LONDON
EC2V 6LH

25 September 2002

**THB GROUP PLC (THE COMPANY) AND ITS SUBSIDIARY UNDERTAKINGS
(TOGETHER THE GROUP)**

1 Introduction

- 1.1 We report on the financial information set out in sections 2 to 9. This financial information has been prepared for inclusion in the prospectus dated 25 September 2002 of THB Group plc.

Basis of preparation

- 1.2 The financial information set out in sections 2 to 9 below is based on the audited consolidated financial statements of THB Group plc for the three years ended 30 April 2002 and has been prepared on the basis set out in section 3 after making such adjustments as we considered necessary.

Responsibility

- 1.3 Such financial statements are the responsibility of the directors of THB Group plc who approved their issue.
- 1.4 The directors of THB Group plc are responsible for the contents of the prospectus relating to the flotation of THB Group plc dated 25 September 2002 in which this report is included.
- 1.5 It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

- 1.6 We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the

Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

Authorised by The Financial Services
Authority. A list of partners may be
inspected at the above address.

preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

- 1.7 We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

- 1.8 In our opinion the financial information gives, for the purposes of the prospectus dated 25 September 2002, a true and fair view of the results and cash flows of the group for the three years ended 30 April 2002 and the state of affairs of the group at the end of each of those periods.

Consent

- 1.9 We consent to the inclusion in the prospectus dated 25 September 2002 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

2 Statutory information

- 2.1 The company was incorporated on 28 August 1980 as Nevrus (Sixty-Four) Limited. On 29 October 1980 the company changed its name to Thompson Heath & Bond (Holdings) Limited.
- 2.2 On 27 August 2002 the company changed its name to THB Group plc.
- 2.3 The financial information set out in this report consolidates that of the company and its subsidiaries. The only subsidiary of the company during the years ended 30 April 2001 and 30 April 2000 was Thompson Heath & Bond Limited.
- 2.4 On 31 October 2001 the company acquired 100% of the share capital of Thompson Heath & Bond (Northern) Limited and Marshall Ewart & Graham Limited.
- 2.5 On 20 December 2001 the company acquired 100% of the share capital of T L Clowes (Insurance Services) Limited and its subsidiary undertakings.

3 Accounting policies

Basis of preparation

- 3.1 The accounts have been prepared under the historical cost convention, modified to include the revaluation of certain land and buildings and in accordance with applicable United Kingdom Accounting Standards.

Basis of consolidation

- 3.2 The group financial information consolidates that of the company and its subsidiaries; the profits and losses of subsidiary undertakings are consolidated from the date of acquisition.

Turnover

- 3.3 Turnover comprises net retained earnings from brokerage and commission from life and pension business.

Insurance premiums, claims and brokerage

- 3.4 Credit is taken for brokerage when the insured is charged with the relevant premium irrespective of the inception date of the policy. Where premiums are payable by instalments, credit is taken when the instalment is due. Alterations in brokerage arising from premium adjustments are taken into account as and when such adjustments are made. Claims are recorded when agreed with underwriters.

Interest receivable

- 3.5 Interest is credited on the basis of amounts receivable for the year.

Goodwill

- 3.6 Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life.

Tangible fixed assets and investments

- 3.7 Tangible fixed assets and investments are stated at cost when originally purchased except for freehold land and buildings which are stated at cost or valuation. Freehold buildings are depreciated at 2% per annum on the cost or the most recent valuation that has been incorporated in the financial information.

Other assets are depreciated at the following rates:

| | | |
|-------------------------------|------------------|---------------------|
| Motor vehicles | reducing balance | 20% – 25% per annum |
| Office fixtures and equipment | reducing balance | 15% – 33% per annum |
| Leasehold improvements | straight line | length of lease |

Insurance broking transactions

- 3.8 The group complies with Financial Reporting Standard No 5 (“FRS 5”) – reporting the substance of transactions. FRS 5 requires that debit and credit balances arising from insurance broking transactions are reported as separate assets or liabilities unless such balances are due to or from the same party and the offset would survive the insolvency of that party. For the avoidance of doubt, no offset of assets and liabilities has been recognised in this financial information.

Taxation

- 3.9 The charge for taxation is based on the profit and loss for the year at current rates of tax and takes into account deferred taxation on all timing differences between the treatment of certain items for statutory accounts purposes and their treatment for corporation tax purposes.
- 3.10 Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

Foreign currencies

- 3.11 Transactions in foreign currencies are translated at the exchange rate prevailing on the date of the transaction. Assets and liabilities are translated at the rates ruling at the balance sheet date. Differences on exchange are included in the profit and loss account.

Leases

- 3.12 Equipment acquired under finance leases, which transfer to the lessee substantially all benefits and risks of ownership, are capitalised, and the capital element of the related rental obligations are included in the balance sheet. The interest element of rental obligations is charged against profit in proportion to the reducing capital element outstanding.

Rentals applicable to operating leases, where the risks and rewards of ownership do not accrue to the group, are charged to the profit and loss account as incurred.

Pensions

- 3.13 Contributions to the group pension schemes are charged to the profit and loss account as they are incurred.

Long term incentive schemes

- 3.14 The group had long term incentive schemes for certain key employees that were based upon the achievement of performance criteria. The cost of providing awards to those employees in the form of shares or rights to shares are recognised over the period to which the performance criteria relate. The amount recognised is based upon the fair value of the shares at the date such awards are made less any consideration that will be paid by the employees at the date they exercise their rights over the shares.

4 Consolidated profit and loss accounts

| | | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|---|-------------|---|---|---|
| | <i>Note</i> | | | |
| Turnover | | | | |
| Continuing activities | 9.1 | 11,859 | 12,201 | 8,419 |
| Acquired activities | | 3,487 | — | — |
| | | <u>15,346</u> | <u>12,201</u> | <u>8,419</u> |
| Other operating income | 9.2 | 832 | 1,632 | 1,447 |
| Operating charges | 9.3/9.4 | (13,085) | (10,992) | (8,469) |
| Goodwill amortisation | | (125) | — | — |
| | | <u>2,536</u> | <u>2,841</u> | <u>1,397</u> |
| Operating profit | | | | |
| Continuing activities | | 2,536 | 2,841 | 1,397 |
| Acquired activities | | 432 | — | — |
| | | <u>2,968</u> | <u>2,841</u> | <u>1,397</u> |
| Interest receivable | | 552 | 637 | 286 |
| Interest payable | 9.7 | (194) | (299) | (249) |
| Profit on ordinary activities before taxation | | <u>3,326</u> | <u>3,179</u> | <u>1,434</u> |
| Taxation | 9.8 | (1,122) | (1,122) | (499) |
| Profit on ordinary activities after taxation | | <u>2,204</u> | <u>2,057</u> | <u>935</u> |
| Dividends | 9.9 | (1,069) | (840) | (420) |
| Profit transferred to reserves | 9.27 | <u>1,135</u> | <u>1,217</u> | <u>515</u> |
| Basic earnings per share | 9.10 | <u>13.3p</u> | <u>14.7p</u> | <u>6.7p</u> |
| Diluted earnings per share | 9.10 | <u>13.3p</u> | <u>11.7p</u> | <u>5.4p</u> |

The group's results all relate to continuing activities.

5 Balance sheets

| | <i>Note</i> | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|--|-------------|--|--|--|
| Fixed assets | | | | |
| Intangible fixed assets | 9.11 | 7,130 | — | — |
| Tangible assets | 9.12 | 4,984 | 4,642 | 3,493 |
| Investments | 9.13a | 197 | 166 | 2,143 |
| Shares in related undertakings | 9.15 | — | 2 | 2 |
| | | <u>12,311</u> | <u>4,810</u> | <u>5,638</u> |
| Current assets | | | | |
| Debtors | 9.16 | 49,352 | 35,351 | 33,545 |
| Premium trust accounts | 9.31 | 25,208 | 15,514 | 11,736 |
| Other cash and deposits | 9.31 | 1,591 | 286 | 573 |
| | | <u>76,151</u> | <u>51,151</u> | <u>45,854</u> |
| Creditors: amounts falling due within one year | 9.18 | <u>(74,264)</u> | <u>(48,507)</u> | <u>(45,192)</u> |
| Net current assets | | <u>1,887</u> | <u>2,644</u> | <u>662</u> |
| Total assets less current liabilities | | 14,198 | 7,454 | 6,300 |
| Creditors: Amounts falling due after more than one year | | | | |
| | 9.19 | (2,876) | (1,913) | (2,956) |
| Provisions for liabilities and charges | 9.22 | <u>—</u> | <u>(7)</u> | <u>(19)</u> |
| | | <u>11,322</u> | <u>5,534</u> | <u>3,325</u> |
| Capital and reserves | | | | |
| Called up share capital | 9.23 | 2,090 | 1,400 | 1,400 |
| Share premium account | 9.24 | 4,132 | — | — |
| Revaluation reserve | 9.25 | 2,073 | 2,087 | 1,338 |
| Other reserves | 9.26 | 526 | 695 | 526 |
| Profit and loss account | 9.27 | 2,501 | 1,352 | 61 |
| Equity shareholders' funds | 9.28 | <u>11,322</u> | <u>5,534</u> | <u>3,325</u> |

6 Statements of total recognised gains and losses

| | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|---|---|---|---|
| Profit for the financial year | 1,135 | 1,217 | 515 |
| Surplus on revaluation of freehold properties | — | 823 | 920 |
| Total recognised gain | <u>1,135</u> | <u>2,040</u> | <u>1,435</u> |

7 Notes of historical cost profits and losses

| | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|--|---|---|---|
| Profit on ordinary activities before taxation | 3,326 | 3,179 | 1,434 |
| Difference between historical cost depreciation charge and depreciation charge based on revalued amounts | 14 | 14 | 20 |
| Historical cost profit on ordinary activities before taxation | <u>3,340</u> | <u>3,193</u> | <u>1,454</u> |
| Historical cost profit retained | <u>1,149</u> | <u>1,231</u> | <u>535</u> |

8 Cash flow statements

| | <i>Note</i> | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|---|-------------|---|---|---|
| Net cash inflow from operating activities | 9.29 | <u>5,710</u> | <u>4,705</u> | <u>6,510</u> |
| Returns on investments and servicing of finance | | | | |
| Interest received | | 552 | 637 | 286 |
| Interest paid | | (166) | (257) | (228) |
| Interest element of finance lease rental payments | | (29) | (42) | (21) |
| Net cash inflow from returns on investments and servicing of finance | | <u>357</u> | <u>338</u> | <u>37</u> |
| Taxation | | | | |
| Tax paid | | <u>(1,128)</u> | <u>(736)</u> | <u>(95)</u> |
| Capital expenditure and financial investments | | | | |
| Purchase of fixed assets | | (530) | (657) | (325) |
| Purchase of investments | | (22) | (42) | (22) |
| Proceeds on disposal of fixed assets | | 43 | 3 | 36 |
| Proceeds on disposal of investments | | — | 1,872 | — |
| Net cash (outflow)/inflow from capital expenditure and financial investment | | <u>(509)</u> | <u>1,176</u> | <u>(311)</u> |
| Acquisitions and disposals | | | | |
| Purchase of subsidiary undertakings | | (2,931) | — | — |
| Net cash from purchase of subsidiary undertakings | | 8,895 | — | — |
| Proceeds on disposal of related undertakings | | 11 | — | — |
| Net cash inflow from acquisitions | | <u>5,975</u> | <u>—</u> | <u>—</u> |
| Dividends | | | | |
| Equity dividends paid | | <u>(1,071)</u> | <u>(840)</u> | <u>—</u> |
| Net cash inflow before financing | | <u>9,334</u> | <u>4,643</u> | <u>6,141</u> |

Cash flow statements (continued)

| | | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|--|------|---|---|---|
| Net cash inflow before financing | | 9,334 | 4,643 | 6,141 |
| Financing | | | | |
| Issue of shares | | 731 | — | — |
| Capital repayment of finance leases | | (182) | (182) | (113) |
| Repayments of amounts borrowed | | (418) | (970) | (839) |
| Receipts from borrowing | | 1,534 | — | 2,000 |
| Net cash inflow/(outflow) from financing | | <u>1,665</u> | <u>(1,152)</u> | <u>1,048</u> |
| Increase in cash | 9.30 | <u><u>10,999</u></u> | <u><u>3,491</u></u> | <u><u>7,189</u></u> |

9 Notes to the financial information

9.1 Turnover

Turnover comprises net retained brokerage; turnover and operating profit were derived from the activity of insurance broking.

Turnover was received from activities in the following geographical areas:

| | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|-------------------------------|---|---|---|
| Continuing activities: | | | |
| United Kingdom | 4,387 | 3,839 | 3,303 |
| Other European countries | 205 | 120 | 62 |
| United States of America | 7,071 | 7,915 | 4,810 |
| Other countries | 196 | 327 | 244 |
| | <u>11,859</u> | <u>12,201</u> | <u>8,419</u> |

All turnover relating to acquired activities was generated in the UK.

9.2 Other operating income

| | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|---|---|---|---|
| Continuing activities: | | | |
| Management charges (note 9.35a) | 824 | 1,498 | 1,288 |
| Rents receivable under operating leases | 8 | 134 | 159 |
| | <u>832</u> | <u>1,632</u> | <u>1,447</u> |

9.3 Analysis of operations

| | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|---------------------------------|---|---|---|
| Net operating expenses | | | |
| Administrative expenses: | | | |
| Continuing activities | 10,155 | 10,992 | 8,469 |
| Acquired activities | 2,930 | — | — |
| | <u>13,085</u> | <u>10,992</u> | <u>8,469</u> |

9.4 Operating charges

| | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|--|---|---|---|
| Operating charges include | | | |
| Staff costs (note 9.5) | 9,443 | 8,850 | 5,990 |
| Depreciation and amortisation: | | | |
| – goodwill | 125 | — | — |
| – tangible fixed assets, owned | 411 | 283 | 113 |
| – tangible fixed assets, hire purchase | 99 | 113 | 104 |
| Remuneration of auditors | | | |
| – audit | 60 | 35 | 30 |
| – other services | 83 | 7 | 9 |
| Operating lease rentals | | | |
| – land and buildings | 267 | 165 | 80 |
| – other | 90 | 70 | 123 |
| | <u>9,443</u> | <u>8,850</u> | <u>5,990</u> |

9.5 Employees

The average number of employees, including directors during the period, all of whom were engaged in the activity of insurance broking, is set out below:

| | <i>Year ended 30 April 2002 Number</i> | <i>Year ended 30 April 2001 Number</i> | <i>Year ended 30 April 2000 Number</i> |
|-----------|--|--|--|
| Employees | 191 | 146 | 132 |

| | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|--------------------------------|---|---|---|
| Total staff costs were: | | | |
| Wages and salaries | 8,066 | 7,069 | 4,739 |
| Social security costs | 814 | 748 | 475 |
| Pension contributions | 570 | 414 | 326 |
| Executive Incentive Payments | 162 | 450 | 450 |
| Executive share option schemes | (169) | 169 | — |
| | <u>9,443</u> | <u>8,850</u> | <u>5,990</u> |

The group operates two defined contribution pension schemes at 30 April 2002. During the period to 20 December 2001 one scheme was operated, the second being acquired with T L Clowes (Insurance Services) Limited and its subsidiary undertakings. The assets of the schemes are held separately from those of the group in independently administered funds. The pension cost charge shown above represents contributions payable by the group to such funds.

The Executive Incentive Payment scheme was a recruitment incentive for four teams who brought a client portfolio with them into the Group.

The executive share option schemes have been accounted for in accordance with the accounting policy set out in section 3. The options were exercised in December 2001. The release to the profit and loss account in the year ended 30 April 2002 is due to revisions made to the estimated fair value of the shares.

9.6 Directors

(a) Emoluments

| | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|--------------------------------------|---|---|---|
| Remuneration for management services | 542 | 471 | 324 |
| Pension contributions | 48 | 33 | 26 |
| | <u>590</u> | <u>504</u> | <u>350</u> |

The remuneration and pension contributions to the money purchase pension scheme in respect of the highest paid director was:

| | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|--------------------------------------|---|---|---|
| Remuneration for management services | 161 | 161 | 117 |
| Pension contributions | 21 | 13 | 9 |
| | <u>182</u> | <u>174</u> | <u>126</u> |

During the year ended 30 April 2002 three (2001: three, 2000: three) directors accrued benefits under money purchase pension schemes.

During the year ended 30 April 2002 one (2001: nil, 2000: nil) director exercised share options.

(b) Transactions

The group places risks with syndicates at Lloyd's of which V H Thompson is a member, on the same basis as the group deals with other Lloyd's syndicates.

9.7 Interest payable

| | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|---|---|---|---|
| On bank overdrafts | — | 1 | 3 |
| On loans repayable within five years | 97 | 186 | — |
| On loans not wholly repayable within five years | 57 | 63 | 171 |
| To unsecured creditors | 11 | 7 | 54 |
| On finance leases | 29 | 42 | 21 |
| | <u>194</u> | <u>299</u> | <u>249</u> |

9.8 Taxation

(a) Analysis of charge for the year

| | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|--|---|---|---|
| The taxation charge comprises: | | | |
| UK corporation tax at 30% (2001: 30%, 2000: 30%) | | | |
| Current year | 1,167 | 1,131 | 484 |
| Prior year | (7) | 3 | 4 |
| | <u>1,160</u> | <u>1,134</u> | <u>488</u> |
| Deferred taxation | (38) | (12) | 11 |
| | <u>1,122</u> | <u>1,122</u> | <u>499</u> |

The company is a close company within the meaning of the Income and Corporation Taxes Act 1988.

(b) Factors affecting tax charge for the year

| | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|--|---|---|---|
| Profit on ordinary activities before tax | 3,326 | 3,179 | 1,434 |
| Profit on ordinary activities before tax multiplied by standard rate of corporation tax at 30% | 998 | 954 | 430 |
| Expenses not deductible for tax purposes | 141 | 146 | 53 |
| Goodwill amortisation | 38 | — | — |
| (Profit)/loss on sale of assets | (2) | 43 | (10) |
| Depreciation for period in excess of capital allowances | (6) | (12) | 11 |
| Other | (2) | — | — |
| Current year tax charge | <u>1,167</u> | <u>1,131</u> | <u>484</u> |

9.9 Dividends

| | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|--|---|---|---|
| Interim dividends of 4p per share (2001: 3p, 2000: 0p) | 651 | 420 | — |
| Final dividend of 2p per share (2001: 3p, 2000: 3p) | 418 | 420 | 420 |
| | <u>1,069</u> | <u>840</u> | <u>420</u> |

9.10 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to shareholders by the adjusted weighted average number of shares in issue during the year.

| | <i>Year ended 30 April 2002 £'000</i> | <i>Year ended 30 April 2001 £'000</i> | <i>Year ended 30 April 2000 £'000</i> |
|---|---|---|---|
| Net profit attributable to shareholders | 2,204 | 2,057 | 935 |
| | <i>000s</i> | <i>000s</i> | <i>000s</i> |
| Weighted average number of shares in issue | 16,520 | 14,000 | 14,000 |
| Effect of outstanding share options | — | 3,596 | 3,434 |
| Adjusted weighted average number of shares in issue | <u>16,520</u> | <u>17,596</u> | <u>17,434</u> |

9.11 Intangible fixed assets

Goodwill

| | <i>£'000</i> |
|---------------------------------------|--------------|
| Cost | |
| As at 30 April 2000 and 30 April 2001 | — |
| Additions | 7,255 |
| As at 30 April 2002 | <u>7,255</u> |
| Amortisation | |
| As at 30 April 2000 and 30 April 2001 | — |
| Charge for year | 125 |
| As at 30 April 2002 | <u>125</u> |
| Net book value | |
| As at 30 April 2002 | <u>7,130</u> |
| As at 30 April 2001 and 2000 | <u>—</u> |

Goodwill relates to the acquisitions detailed in note 9.14 and is amortised over its estimated useful life of 20 years.

9.12 *Tangible assets*

| | <i>Freehold property £'000</i> | <i>Office fixtures and equipment £'000</i> | <i>Motor vehicles £'000</i> | <i>Total £'000</i> |
|-----------------------------|--|--|-------------------------------------|------------------------|
| Cost or valuation | | | | |
| As at 1 May 1999 | 1,834 | 692 | 133 | 2,659 |
| Additions | — | 525 | 94 | 619 |
| Revaluations | 900 | — | — | 900 |
| Disposals | — | — | (16) | (16) |
| As at 30 April 2000 | 2,734 | 1,217 | 211 | 4,162 |
| Additions | 52 | 688 | — | 740 |
| Revaluations | 769 | — | — | 769 |
| Disposals | — | (27) | (26) | (53) |
| As at 30 April 2001 | 3,555 | 1,878 | 185 | 5,618 |
| Additions | — | 551 | 55 | 606 |
| Acquisition of subsidiaries | — | 631 | 241 | 872 |
| Disposals | — | (8) | (70) | (78) |
| As at 30 April 2002 | 3,555 | 3,052 | 411 | 7,018 |
| Depreciation | | | | |
| As at 1 May 1999 | — | 437 | 48 | 485 |
| Charge for year | 31 | 142 | 44 | 217 |
| Revaluations | (20) | — | — | (20) |
| Disposals | — | — | (13) | (13) |
| As at 30 April 2000 | 11 | 579 | 79 | 669 |
| Charge for year | 43 | 321 | 33 | 397 |
| Revaluations | (54) | — | — | (54) |
| Disposals | — | (19) | (17) | (36) |
| As at 30 April 2001 | — | 881 | 95 | 976 |
| Charge for year | 43 | 424 | 43 | 510 |
| Acquisition of subsidiaries | — | 471 | 110 | 581 |
| Disposals | — | (4) | (29) | (33) |
| As at 30 April 2002 | 43 | 1,772 | 219 | 2,034 |
| Net book value | | | | |
| As at 30 April 2002 | 3,512 | 1,280 | 192 | 4,984 |
| As at 30 April 2001 | 3,555 | 997 | 90 | 4,642 |
| As at 30 April 2000 | 2,723 | 638 | 132 | 3,493 |

The net book value of freehold land and buildings at 30 April 2002 include £1,396,000 (2001: £1,396,000, 2000: £300,000) in respect of land.

The freehold properties are all stated at directors' valuations, based on valuations performed by Montague Evans, external Chartered Surveyors on an open market basis. The most recent valuation was carried out in April 2001. The directors have not updated the valuation because they are not aware of any material change in value.

If freehold properties had not been revalued, they would have been included on the historical cost basis at the following amounts:

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|--------------------------|--|--|--|
| Cost | 1,620 | 1,620 | 1,568 |
| Accumulated depreciation | (282) | (252) | (223) |
| Net book value | <u>1,338</u> | <u>1,368</u> | <u>1,345</u> |

The net book value of fixed assets at 30 April 2002 includes an amount of £178,000 (2001: £247,000, 2000: £369,000) in respect of assets held under finance leases of which £92,000 (2001: £160,000, 2000: £243,000) is included in office fixtures and equipment and £86,000 (2001: £87,000, 2000: £126,000) is included in motor vehicles. Depreciation provided in the year in respect of these assets was £99,000 (2001: £113,000, 2000: £104,000).

9.13 (a) Fixed asset investments

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|---------------------------------|--|--|--|
| Property investment at cost | — | — | 2,000 |
| Life assurance endowment policy | 188 | 166 | 143 |
| Firemarks | 9 | — | — |
| Net book value | <u>197</u> | <u>166</u> | <u>2,143</u> |

The property investment comprised 2000 shares in The First Corporate Equity Trust giving a proportion as a tenant in common of £2,000,000, part of a total subscription of £22,548,000, in a 199 year leasehold office development in the London Docklands Development. The investment was sold during the year ended 30 April 2001 for £1,872,000.

In connection with the acquisition in 1994 of a freehold property 16 Woodside Terrace, Glasgow the company effected a 15 year endowment policy with Eagle Star Life Assurance Company who provided the mortgage in respect of the property. It is anticipated that the proceeds of the policy will clear the mortgage no later than the maturity date of the endowment policy.

(b) Investments in subsidiary undertakings

The subsidiary undertakings of THB Group plc, all of which are wholly owned and registered within England and Wales are listed below, together with their nature of business and immediate parent company:

| <i>Company</i> | <i>Nature of business</i> | <i>Immediate parent</i> |
|---|---|-------------------------------|
| Thompson Heath & Bond Limited | Lloyd's accredited insurance broker | THB Group plc |
| T L Clowes and Company Limited | Lloyd's accredited insurance broker | Thompson Heath & Bond Limited |
| THB UK Limited (formally T L Clowes (Insurance Services) Limited) | Holding company | Thompson Heath & Bond Limited |
| Marshall Ewart & Graham Limited | Insurance broker | THB UK Limited |
| Thompson Heath & Bond (Northern) Limited | Insurance broker | THB UK Limited |
| T L Clowes (Warwick) Limited | Insurance broker | THB UK Limited |
| T L Clowes Financial Services Limited | PIA registered life and pensions broker | THB UK Limited |

9.14 Acquisitions

(a) White & Wilson Insurance Brokers Limited

The group acquired the business, assets and liabilities of White & Wilson Insurance Brokers Limited (“White & Wilson”) with effect from 8 November 2000, although the effective date for the recognition of income and expenses within the books of the group was agreed to be 1 November. On 8 November 2000 Victor H. Thompson also acquired 75% of the issued share capital of White & Wilson. Victor H. Thompson subsequently acquired the balance of the issued share capital of White & Wilson on 6 July 2001.

Fixed asset additions include £183,000 of assets purchased from White & Wilson at fair and net book value. These assets had associated finance lease obligations of £82,000.

Following the acquisition of the business of White & Wilson, certain ongoing business expenses continued to be met by White & Wilson and these costs were subsequently reimbursed to White & Wilson by the company. Likewise, where White & Wilson had prepaid various expenses beyond 31 October 2000 the company has reimbursed White & Wilson for the appropriate portion of such expenditure.

(b) THB UK Limited (formerly T L Clowes (Insurance Services) Limited)

On 20 December 2001 the group acquired the entire share capital of THB UK Limited. The assets and liabilities comprised:

| | <i>At book value £'000</i> | <i>Fair value adjustment £'000</i> | <i>At fair value £'000</i> |
|---------------------------------|------------------------------------|--|------------------------------------|
| Intangible fixed assets | 150 | (150) | — |
| Tangible fixed assets | 292 | — | 292 |
| Investments | 10 | — | 10 |
| Current assets | | | |
| Debtors | 19,590 | — | 19,590 |
| Cash at bank | 8,110 | — | 8,110 |
| | <hr/> | <hr/> | <hr/> |
| Total assets | 28,152 | (150) | 28,002 |
| Current liabilities | (26,750) | 411 | (26,339) |
| | <hr/> | <hr/> | <hr/> |
| Net assets | 1,402 | 261 | 1,663 |
| | <hr/> <hr/> | <hr/> <hr/> | |
| Less: costs of acquisition | | | (413) |
| Goodwill arising on acquisition | | | 6,750 |
| | | | <hr/> |
| | | | 8,000 |
| | | | <hr/> <hr/> |
| Satisfied by: | | | |
| Issue of shares | | | 4,091 |
| Cash paid | | | 1,955 |
| Deferred cash consideration | | | 1,954 |
| | | | <hr/> |
| | | | 8,000 |
| | | | <hr/> <hr/> |

The directors anticipate payment of the deferred consideration to be made in full.

The fair value adjustments comprise the write-off of goodwill arising on consolidation of the T L Clowes group and a change in the value of creditors to reflect the amount expected to be paid.

The consolidated results of THB UK Limited for the period prior to acquisition and the previous financial year are summarised below:

| | <i>Period 1 April 2001 to date of acquisition £'000</i> | <i>Year ended 31 March 2001 £'000</i> |
|--|---|---|
| Turnover | 4,039 | 5,513 |
| Other operating income | — | 678 |
| Administrative expenses | (4,930) | (5,466) |
| Operating (loss)/profit | (891) | 725 |
| Interest receivable | 224 | 363 |
| Interest payable | (6) | (10) |
| (Loss)/profit on ordinary activities before taxation | (673) | 1,078 |
| Taxation | 314 | (321) |
| (Loss)/profit for the period | (359) | 757 |

(c) Marshall Ewart & Graham Limited

On 31 October 2001 the group acquired the entire share capital of Marshall Ewart & Graham Limited. The assets and liabilities acquired comprised:

| | <i>At book and fair value £'000</i> |
|---------------------------------|---|
| Current assets | |
| Debtors | 222 |
| Cash at bank | 293 |
| Total assets | 515 |
| Current liabilities | (458) |
| Net assets | 57 |
| Goodwill arising on acquisition | 369 |
| | 426 |
| Satisfied by: | |
| Cash | 426 |

Management charges received from Marshall Ewart & Graham Limited for the period prior to acquisition and the previous financial year are shown in note 9.35a.

(d) *Thompson Heath & Bond (Northern) Limited*

| | <i>At book and fair value £'000</i> |
|---------------------------------|---|
| Current assets | |
| Debtors | 947 |
| Cash at bank | 492 |
| | <hr/> |
| Total assets | 1,439 |
| Current liabilities | (1,437) |
| | <hr/> |
| Net assets | 2 |
| Goodwill arising on acquisition | 136 |
| | <hr/> |
| | 138 |
| | <hr/> <hr/> |
| Satisfied by: | |
| Cash | 138 |
| | <hr/> <hr/> |

Management charges received from Thompson Heath & Bond (Northern) Limited for the period prior to acquisition and the previous financial year are shown in note 9.35a.

9.15 *Shares in related undertakings*

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|---|--|--|--|
| Shares in UK unlisted companies at cost | — | 2 | 2 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

9.16 *Debtors*

(a) *Amounts falling due within one year*

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|---|--|--|--|
| Amounts due from clients and insurers (note 9.17) | 48,809 | 34,688 | 32,430 |
| Other debtors | 196 | 210 | 356 |
| Prepayments and accrued income | 316 | 68 | 53 |
| Related undertakings (note 9.35a) | — | 385 | 424 |
| | <hr/> | <hr/> | <hr/> |
| | 49,321 | 35,351 | 33,263 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

(b) *Amounts falling due after one year*

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|-----------------------------------|--|--|--|
| Other debtors | — | — | 202 |
| Related undertakings (note 9.35a) | — | — | 80 |
| Deferred tax (note 9.22) | 31 | — | — |
| | <hr/> | <hr/> | <hr/> |
| | 31 | — | 282 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

9.17 *Insurance balances*

- (a) Group companies, as with other insurance brokers, usually act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable for amounts arising from such transactions. Notwithstanding the legal relationships with clients and insurers, insurance brokers are entitled to retain investment income on any cash flows arising from insurance broking transactions and, consequently, debtors and creditors arising from such transactions are shown as assets and liabilities of the group.
- (b) The level of insurance broking debtors is not an indication of credit risk because the position of the insurance broker as agent means that generally the credit risk is borne by the principals. Nor is it an indication of future cash flows as it is normal practice for insurance brokers to settle accounts with clients, insurers, other intermediaries and market settlement bureaux on a net basis. The simultaneous recording of an insurance broking transaction between client and insurer results in a high level of correlation between insurance broking debtors and creditors.
- (c) The group monies held in insurance broking accounts (as defined by the General Insurance Standards Council) together with monies due to the group from insurance debtors exceed the amount due to insurance creditors at 30 April 2002 by £6,749,000 (2001: £5,526,000, 2000: £1,961,000).

9.18 *Creditors: amounts falling due within one year*

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|---|--|--|--|
| Amounts due to clients and insurers (note 9.17) | 67,268 | 44,779 | 42,452 |
| Corporation tax | 547 | 540 | 139 |
| Other taxation and social security | 274 | 180 | 162 |
| Related undertakings (note 9.35a) | 136 | 78 | 36 |
| Accruals and deferred income | 3,052 | 1,943 | 1,389 |
| Deferred purchase consideration | 1,955 | — | — |
| Dividend payable | 418 | 420 | 420 |
| Secured loans: | | | |
| Bank loan (note 9.20) | 450 | — | 69 |
| Mortgages (note 9.20) | 101 | 405 | 376 |
| Finance lease creditors (note 9.20) | 63 | 162 | 149 |
| | <u>74,264</u> | <u>48,507</u> | <u>45,192</u> |

9.19 *Creditors: amounts falling due after more than one year*

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|-------------------------------------|--|--|--|
| Secured loans: | | | |
| Bank loan (note 9.20) | 1,084 | — | 541 |
| Mortgages (note 9.20) | 1,760 | 1,874 | 2,263 |
| Finance lease creditors (note 9.20) | 32 | 39 | 152 |
| | <u>2,876</u> | <u>1,913</u> | <u>2,956</u> |

9.20 Borrowings

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|-------------------------------------|--|--|--|
| Due within one year | | | |
| Bank loans and mortgages | 551 | 405 | 445 |
| Finance leases | 63 | 162 | 149 |
| Due after one and within two years | | | |
| Bank loans and mortgages | 707 | 435 | 686 |
| Finance leases | 23 | 39 | 113 |
| Due after two and within five years | | | |
| Bank loans and mortgages | 806 | 962 | 1,459 |
| Finance leases | 9 | — | 39 |
| Due after five years | | | |
| Bank loans and mortgages | 1,331 | 477 | 659 |
| | <u>3,490</u> | <u>2,480</u> | <u>3,550</u> |

The mortgages are either repayable by instalments or from the proceeds of an endowment policy (note 9.13a) over a period not exceeding 10 years and are secured on freehold properties.

The loans are repayable by instalments over a period not exceeding 5 years and are secured on freehold properties and by a debenture over the group non-insurance assets. The loans and mortgages bear interest at fluctuating rates.

9.21 Financial Instruments

The group uses financial instruments, other than derivatives, comprising borrowings, cash and various items such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to finance the group's operations.

The main risks arising from the group's financial instruments are interest rate, liquidity and currency risks. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

The group has no interest in the trade of financial instruments, interest rate swaps or forward interest rate agreements.

Short term debtors and creditors

Short term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

IBA funds

The group holds funds received in relation to insurance broking transactions in separate Insurance Bank Accounts ("IBA accounts"), and is entitled to retain the investment income on these accounts. These funds are invested with the group's bankers on the money markets for periods of up to 30 days.

Interest rate risk

The group finances its operations through a mixture of retained profits and borrowings. The group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating rate facilities.

The group's financial liabilities at 30 April 2002, 2001 and 2000 are shown under borrowings (note 9.20).

The interest rate exposure of the financial liabilities of the group as at 30 April 2002 was:

| | <i>Interest rate</i> | | |
|-------------------------|------------------------|---|---|
| | <i>Fixed £'000</i> | <i>Floating £'000</i> | <i>Total £'000</i> |
| At 30 April 2002 | | | |
| Sterling currency | 446 | 3,044 | 3,490 |
| At 30 April 2001 | | | |
| Sterling currency | 552 | 1,928 | 2,480 |
| At 30 April 2000 | | | |
| Sterling currency | 652 | 2,898 | 3,550 |
| | | <i>Fixed rate financial liabilities</i> | |
| | | <i>Weighted average fixed interest rate %</i> | <i>Weighted average period for which rate is fixed in years</i> |
| At 30 April 2002 | | | |
| Sterling currency | | 11.6 | 7 |
| At 30 April 2001 | | | |
| Sterling currency | | 12.9 | 7 |
| At 30 April 2000 | | | |
| Sterling currency | | 14.6 | 7 |

The floating rate borrowings bear interest at rates based on base rate plus a margin between 1.75% and 3.2%. On these borrowings a risk exists to the group that interest rates may rise. The group hedges this risk by placing IBA funds on short term deposit. A rise in interest rates would generate additional bank interest receivable on these accounts. The group has, conversely, an exposure through reduction in interest receivable to a fall in interest rates.

Liquidity risk

The group's broking subsidiaries are required by their regulators to maintain a solvency margin within their IBA accounts at all times. The margin is calculated on a monthly basis and reported to the Board. Brokerage is only withdrawn from the IBA accounts to the extent that funds are required to meet group liabilities and can be withdrawn without breaching the solvency margin.

The group's broking subsidiaries have maintained their solvency margins throughout the three year period to 30 April 2002.

The group has a policy of not funding the payment of premium or claims unless approved at a senior level. Where funding occurs, it is monitored and controlled. Involuntary funding of premiums and claims does occur in certain lines of business and this is monitored on a regular basis to control any short term impact on liquidity.

Currency risk

The group is exposed to transaction foreign exchange risk, particularly in relation to the US Dollar.

The foreign exchange risk is limited to the brokerage earned by the group, as premiums are usually collected and paid in the same currency. Brokerage earned in foreign currency is sold for sterling at spot rate at least monthly to minimise the exposure to currency fluctuations.

Virtually all claims are collected and paid in the same currency, and hence do not give rise to a foreign exchange risk. On the rare occasions where a significant claim arises which is to be paid to the group in sterling for onward payment to the insured in a foreign currency, the group enters into a forward foreign currency contract to eliminate the currency risk arising from the transaction.

There was no material difference between book value and the fair value of the group's financial liabilities at 30 April 2002, 2001 and 2000.

Borrowing facilities

The group has undrawn borrowing facilities at 30 April 2002 amounting to £1,466,000, which it can draw down to meet the deferred consideration due in relation to the acquisition of TLC. The group has no undrawn uncommitted borrowing facilities at 30 April 2002.

9.22 Provisions for liabilities and charges

| | <i>Accelerated capital allowances £'000</i> |
|-------------------------------|---|
| <i>Deferred taxation</i> | |
| At 1 May 1999 | 8 |
| Movement (note 9.8a) | 11 |
| | <hr/> |
| At 30 April 2000 | 19 |
| Movement (note 9.8a) | (12) |
| | <hr/> |
| At 30 April 2001 | 7 |
| Movement (note 9.8a) | (38) |
| | <hr/> |
| At 30 April 2002 (note 9.16b) | (31) |
| | <hr/> <hr/> |

No provision has been made for deferred tax gains on revaluing land and buildings to their market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £245,000 (2001: £245,000, 2000: £69,000) after the utilisation of capital losses within the group at that time.

9.23 Share capital

| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|------------------------------------|--|--|--|
| Authorised | | | |
| Ordinary shares of 10p each | 2,500 | 2,500 | 2,500 |
| | <hr/> | <hr/> | <hr/> |
| Allotted, called up and fully paid | | | |
| Ordinary shares of 10p each | 2,090 | 1,400 | 1,400 |
| | <hr/> | <hr/> | <hr/> |

On the 18 December 2001 the company made an allotment of 4,530,415 ordinary shares on the exercise of executive share options.

On 20 December 2001 the company made an allotment of 2,368,904 ordinary shares as part of the consideration for the purchase of T L Clowes (Insurance Services) Limited.

9.24 Share premium account

| | |
|---|--------------|
| | <i>£'000</i> |
| At 30 April 2000 and 30 April 2001 | — |
| Arising on exercise of executive share options | 278 |
| Arising on allotment for the purchase of THB UK Limited | 3,854 |
| | <hr/> |
| At 30 April 2002 | 4,132 |
| | <hr/> <hr/> |

9.25 Revaluation reserve

| | |
|---------------------------------------|--------------|
| | <i>£'000</i> |
| At 1 May 1999 | 215 |
| Revaluation during year (note 9.12) | 920 |
| Transfer from profit and loss account | 223 |
| Transfer to profit and loss account | (20) |
| | <hr/> |
| At 30 April 2000 | 1,338 |
| Revaluation during year (note 9.12) | 823 |
| Transfer to profit and loss account | (74) |
| | <hr/> |
| At 30 April 2001 | 2,087 |
| Transfer to profit and loss account | (14) |
| | <hr/> |
| At 30 April 2002 | 2,073 |
| | <hr/> <hr/> |

9.26 Other reserves

| | | | |
|--|--|--|--|
| | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
| Excess of net tangible assets over cost of acquisition of subsidiary undertaking | 26 | 26 | 26 |
| Profits capitalised in a subsidiary undertaking | 500 | 500 | 500 |
| Executive share option schemes | — | 169 | — |
| | <hr/> | <hr/> | <hr/> |
| | 526 | 695 | 526 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

9.27 Profit and loss account

| | |
|-----------------------------------|--------------|
| | <i>£'000</i> |
| At 1 May 1999 | (251) |
| Profit for the financial year | 515 |
| Transfer from revaluation reserve | 20 |
| Transfer to revaluation reserve | (223) |
| | <hr/> |
| At 30 April 2000 | 61 |
| Profit for the financial year | 1,217 |
| Transfer from revaluation reserve | 74 |
| | <hr/> |
| At 30 April 2001 | 1,352 |
| Profit for the financial year | 1,135 |
| Transfer from revaluation reserve | 14 |
| | <hr/> |
| At 30 April 2002 | 2,501 |
| | <hr/> <hr/> |

9.28 Reconciliation of movements in shareholders' funds

| | £'000 |
|---|----------------------|
| Shareholders' funds at 1 May 1999 | 1,890 |
| Profit for the financial year | 515 |
| Revaluation during year | 920 |
| | <hr/> |
| Shareholders' funds at 30 April 2000 | 3,325 |
| Profit for the financial year | 1,217 |
| Transfer to executive share option scheme reserve | 169 |
| Revaluation during year | 823 |
| | <hr/> |
| At 30 April 2001 | 5,534 |
| Profit for the financial year | 1,135 |
| Issue of shares | 4,822 |
| Transfer from executive share option scheme reserve | (169) |
| | <hr/> |
| At 30 April 2002 | <u><u>11,322</u></u> |

The executive share option schemes are discussed further in note 9.5.

9.29 Net cash inflow from operating activities

| | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|--|---|---|---|
| Operating profit | 2,968 | 2,841 | 1,397 |
| Depreciation | 635 | 397 | 217 |
| Executive share option schemes | (169) | 169 | — |
| Decrease in value of investments | — | 20 | — |
| (Profit)/loss on sale of fixed assets | (8) | 142 | (32) |
| Decrease/(increase) in amounts due from clients and insurers | 6,293 | (2,960) | (6,011) |
| Decrease in other debtors | 201 | 452 | 725 |
| (Decrease)/increase in amounts due to clients and insurers | (4,476) | 2,328 | 11,567 |
| Increase/(decrease) in other creditors | 266 | 1,316 | (1,353) |
| | <hr/> | <hr/> | <hr/> |
| Net cash inflow from operating activities | <u><u>5,710</u></u> | <u><u>4,705</u></u> | <u><u>6,510</u></u> |

The executive share option schemes are discussed further in note 9.5.

9.30 Reconciliation of net cash flow to movement in net funds

| | <i>Year ended</i> <i>30 April</i> <i>2002</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2001</i> <i>£'000</i> | <i>Year ended</i> <i>30 April</i> <i>2000</i> <i>£'000</i> |
|--|---|---|---|
| Increase in cash for the year | 10,999 | 3,491 | 7,189 |
| Cash outflow from finance leases | 182 | 182 | 113 |
| Cash (inflow)/outflow from financing | (1,116) | 970 | (1,161) |
| | <hr/> | <hr/> | <hr/> |
| Changes in net funds resulting from cash flows | 10,065 | 4,643 | 6,141 |
| Inception of finance leases | (76) | (82) | (294) |
| Net funds at start of year | 13,320 | 8,759 | 2,912 |
| | <hr/> | <hr/> | <hr/> |
| Net funds at end of year | <u><u>23,309</u></u> | <u><u>13,320</u></u> | <u><u>8,759</u></u> |

9.31 Analysis of changes in net funds

| | <i>At 1 May</i> 1999 £'000 | <i>Cashflows</i> £'000 | <i>At 30 April</i> 2000 £'000 |
|-------------------------|----------------------------------|---------------------------|-------------------------------------|
| Premium trust accounts | 4,942 | 6,794 | 11,736 |
| Other cash and deposits | 178 | 395 | 573 |
| Finance leases | (120) | (181) | (301) |
| Borrowings | (2,088) | (1,161) | (3,249) |
| At end of period | <u>2,912</u> | <u>5,847</u> | <u>8,759</u> |

| | <i>At 1 May</i> 2000 £'000 | <i>Cashflows</i> £'000 | <i>At 30 April</i> 2001 £'000 |
|-------------------------|----------------------------------|---------------------------|-------------------------------------|
| Premium trust accounts | 11,736 | 3,778 | 15,514 |
| Other cash and deposits | 573 | (287) | 286 |
| Finance leases | (301) | 100 | (201) |
| Borrowings | (3,249) | 970 | (2,279) |
| At end of period | <u>8,759</u> | <u>4,561</u> | <u>13,320</u> |

| | <i>At 1 May</i> 2001 £'000 | <i>Cashflows</i> £'000 | <i>Acquisitions</i> £'000 | <i>Other</i> <i>movements</i> £'000 | <i>At 30 April</i> 2002 £'000 |
|-------------------------|----------------------------------|---------------------------|------------------------------|---|-------------------------------------|
| Premium trust accounts | 15,514 | 1,063 | 8,631 | — | 25,208 |
| Other cash and deposits | 286 | 1,041 | 264 | — | 1,591 |
| Finance leases | (201) | 182 | — | (76) | (95) |
| Borrowings | (2,279) | (1,116) | — | — | (3,395) |
| At end of period | <u>13,320</u> | <u>1,170</u> | <u>8,895</u> | <u>(76)</u> | <u>23,309</u> |

9.32 Capital commitments

At 30 April 2002, 30 April 2001 and 30 April 2000 the group did not have any capital commitments.

9.33 Contingent liabilities

In common with other companies, T L Clowes Financial Services Limited and Marshall Ewart & Graham Limited are subject to review by the Financial Services Authority ("FSA") in respect of advice relating to personal pension schemes that took place between 1989 and 1994. Until 30 November 2001 these companies were regulated by the Personal Investment Authority ("PIA"). The companies have complied with the requirements of the PIA and FSA in writing to all clients who, during that period, were advised in respect of pension transfers, opting out of employer pension schemes and "rebate only" cases, asking those clients if they wished their case to be reviewed. Although the majority of reviews have now been completed, a limited number of special cases, in accordance with FSA dispensation, have not been completed. The companies have made provisions for the possible liabilities in respect of the future costs and fees of processing and dealing with these reviews, but the completion of the reviews could give rise to further liabilities which are not capable of quantification at this time.

Until 3 July 2000, Lloyd's regulations provided that Lloyd's underwriters could only accept business on a direct basis from non-Lloyd's intermediaries if such business was guaranteed by a Lloyd's broker. Therefore, in accordance with established practice for certain classes of business (primarily motor) Thompson Heath & Bond Limited ("THB"), a wholly owned subsidiary undertaking, guaranteed the payment of premiums to underwriters from approximately 50 non-Lloyd's intermediaries until 1 July 2000. At this date THB ceased to operate as a guarantor other than in respect of related companies. At 30 April 2002 such residual non-related company guarantees amounted to £nil (2001: £15,000, 2000: approximately £8,100,000). Related company guarantees amounted to £nil (2001: £67,000, 2000: £53,000).

9.34 Lease commitments

Certain group companies entered into non-cancellable lease arrangements. The commitments in respect of the forthcoming years can be analysed as follows:

| <i>Operating leases which expire:</i> | <i>As at 30 April 2002 £'000</i> | <i>As at 30 April 2001 £'000</i> | <i>As at 30 April 2000 £'000</i> |
|---------------------------------------|--|--|--|
| Land and buildings | | | |
| Within one year | 25 | 3 | 3 |
| Two to five years | 308 | — | — |
| After five years | 56 | 104 | 104 |
| | <u>389</u> | <u>107</u> | <u>107</u> |
| Other | | | |
| Within one year | 23 | 24 | 13 |
| Two to five years | 138 | 14 | 56 |
| | <u>161</u> | <u>38</u> | <u>69</u> |

The total charge for lease rentals is disclosed in note 9.4.

9.35 Related party transactions

(a) Related companies

Management charges were derived from various associated companies which are now 100% owned subsidiary undertakings of THB Group plc.

The majority of the management charges represented the brokerage income of Marshall Ewart & Graham Limited ("MEG") and Thompson Heath & Bond (Northern) Limited ("Northern") with the company bearing the operating costs relating to these companies. Prior to the acquisition of these companies on 31 October 2001, management charges of £539,000 were received from MEG in 2002 (2001: £991,000, 2000: £793,000) and £285,000 from Northern (2001: £500,000, 2000: £481,000).

(b) Insurance transactions

Thompson Heath & Bond Limited ("THB") transacted business on an arm's length basis with MEG, Northern and Thompson Heath & Bond (South Eastern) Limited ("South Eastern"). At 1 December 2000, South Eastern was transferred to THB at book value. Prior to 1 December 2000, South Eastern passed its retained brokerage income to THB, save for any margin which may have been required to maintain South Eastern's solvency margin as required by the Insurance Brokers Registration Council. In the period between 1 May 2000 and 30 November 2000 this amounted to £294,000 (year ended 30 April 2000: £446,000).

Yours faithfully

GRANT THORNTON

The Directors
THB Group plc
12 Poverest Road
Orpington
Kent
BR5 2TP

and

The Directors
Numis Securities Limited
Cheapside House
138 Cheapside
London
EC2V 6LH

25 September 2002

**THB UK LIMITED (formerly TL Clowes (Insurance Services) Limited) (THE COMPANY) AND ITS
SUBSIDIARY UNDERTAKINGS (TOGETHER THE GROUP)**

1 Introduction

- 1.1 We report on the financial information set out in sections 2 to 7. This financial information has been prepared for inclusion in the listing prospectus dated 25 September 2002 of THB Group plc.

Basis of preparation

- 1.2 The financial information set out in sections 2 to 7 below is based on the audited consolidated financial statements of THB UK Limited for the period ended 20 December 2001 and the two years ended 31 March 2001 and 31 March 2000 and has been prepared on the basis set out in section 3 after making such adjustments as we considered necessary.

Responsibility

- 1.3 Such financial statements are the responsibility of the directors of THB UK Limited who approved their issue.
- 1.4 The directors of THB Group plc are responsible for the contents of the prospectus relating to the flotation of THB Group plc dated 25 September 2002 in which this report is included.
- 1.5 It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

- 1.6 We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

- 1.7 We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

- 1.8 In our opinion the financial information gives, for the purposes of the prospectus dated 25 September 2002, a true and fair view of the results and cash flows of the Group for the period ended 20 December 2001 and the two years ended 31 March 2001 and 31 March 2000 and the state of affairs of the Group at the end of each of those periods.

Consent

- 1.9 We consent to the inclusion in the prospectus dated 25 September 2002 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

2 Statutory information

- 2.1 The company was incorporated on 2 September 1996 as Securacode Systems Limited. On 31 October 1996 the company changed its name to T L Clowes (Insurance Services) Limited.
- 2.2 On 12 August 2002 the company changed its name to THB UK Limited.
- 2.3 The financial information set out in this report consolidates that of the company and its subsidiaries.

3 Accounting policies

Basis of preparation

- 3.1 The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

Basis of consolidation

- 3.2 The group financial statements consolidate those of the company and its subsidiaries; the profits and losses of subsidiary undertakings are consolidated from the date of acquisition.

Turnover

- 3.3 Turnover comprises brokerage derived from insurance and reinsurance business and commission from life and pension business.

Insurance premiums, claims and brokerage

- 3.4 Credit is taken for brokerage when the insured is charged with the relevant premium irrespective of the inception date of the policy. Where premiums are payable by instalments, credit is taken when the instalment is due. Alterations in brokerage arising from premium adjustments are taken into account as and when such adjustments are made. Claims are recorded when agreed with underwriters.

Interest receivable

- 3.5 Interest is credited on the basis of amounts receivable for the year.

Goodwill

- 3.6 Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life.

Tangible fixed assets and investments

- 3.7 Tangible fixed assets and investments are stated at cost. Vehicles, machinery and equipment are depreciated over their anticipated useful lives under the following methods and at the following rates:

| | | |
|--------------------------------|---------------|-------------------|
| Motor vehicles | straight line | 20%-25% per annum |
| Office furniture and equipment | straight line | 15%-33% per annum |
| Leasehold improvements | straight line | length of lease |

Insurance broking transactions

- 3.8 The group complies with Financial Reporting Standard No 5 (“FRS 5”) – reporting the substance of transactions. FRS 5 requires that debit and credit balances arising from insurance broking transactions are reported as separate assets or liabilities unless such balances are due to or from the same party and the offset would survive the insolvency of that party. For the avoidance of doubt, no offset of assets and liabilities has been recognised in this financial information.

Taxation

- 3.9 The charge for taxation is based on the profit and loss for the year at current rates of tax and takes into account deferred taxation on all timing differences between the treatment of certain items for statutory accounts purposes and their treatment for corporation tax purposes.
- 3.10 Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

Foreign currencies

- 3.11 Transactions in foreign currencies are translated at the exchange rate prevailing on the date of the transaction. Assets and liabilities are translated at the rates ruling at the balance sheet date. Differences on exchange are included in the profit and loss account.

Leases

- 3.12 Equipment acquired under finance leases, which transfer to the lessee substantially all benefits and risks of ownership, are capitalised, and the capital element of the related rental obligations are included in the balance sheet. The interest element of rental obligations is charged against profit in proportion to the reducing capital element outstanding.

Rentals applicable to operating leases, where the risks and rewards of ownership do not accrue to the group, are charged to the profit and loss account as incurred.

Pensions

- 3.13 Contributions to the group pension scheme are charged to the profit and loss account as they are incurred.

4 Consolidated profit and loss accounts

| | | <i>Period ended</i> | <i>Year ended</i> | <i>Year ended</i> |
|--|-------------|-------------------------|-------------------|-------------------|
| | | <i>20 December</i> | <i>31 March</i> | <i>31 March</i> |
| | | <i>2001</i> | <i>2001</i> | <i>2000</i> |
| | <i>Note</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Turnover | 7.1 | 4,039 | 5,513 | 4,740 |
| Other operating income | | — | 678 | — |
| Exceptional bad debt provision | | (439) | (140) | — |
| Other operating charges | 7.2/7.3 | (4,491) | (5,326) | (4,663) |
| Operating (loss)/profit | | (891) | 725 | 77 |
| Interest receivable | | 224 | 363 | 374 |
| Interest payable | 7.6 | (6) | (10) | (22) |
| (Loss)/profit on ordinary activities before taxation | | (673) | 1,078 | 429 |
| Taxation | 7.7 | 314 | (321) | (131) |
| (Loss)/profit on ordinary activities after taxation | | (359) | 757 | 298 |
| Dividends | 7.8 | — | (350) | (100) |
| (Loss)/profit transferred to reserves | 7.17 | (359) | 407 | 198 |

The group's results all relate to continuing activities.

The group has no recognised gains or losses other than the profit or loss for the year which has been calculated on the historical cost basis.

5 Balance sheets

| | | <i>As at</i> <i>20 December</i> | <i>As at</i> <i>31 March</i> | <i>As at</i> <i>31 March</i> |
|--|-------------|------------------------------------|---------------------------------|---------------------------------|
| | <i>Note</i> | <i>2001</i> <i>£'000</i> | <i>2001</i> <i>£'000</i> | <i>2000</i> <i>£'000</i> |
| Fixed assets | | | | |
| Intangible fixed assets | 7.9 | 150 | 157 | 167 |
| Tangible assets | 7.10 | 292 | 308 | 300 |
| Investments | 7.11a | 10 | 10 | 10 |
| | | <u>452</u> | <u>475</u> | <u>477</u> |
| Current assets | | | | |
| Debtors | 7.12 | 19,590 | 10,577 | 9,434 |
| Other cash and deposits | | 8,110 | 5,950 | 7,088 |
| | | <u>27,700</u> | <u>16,527</u> | <u>16,522</u> |
| Creditors: amounts falling due within one year | 7.14 | <u>(26,750)</u> | <u>(15,509)</u> | <u>(15,904)</u> |
| Net current assets | | <u>950</u> | <u>1,018</u> | <u>618</u> |
| Total assets less current liabilities | | <u>1,402</u> | <u>1,493</u> | <u>1,095</u> |
| Creditors: Amounts falling due after more than one year | 7.15 | <u>—</u> | <u>—</u> | <u>(9)</u> |
| | | <u>1,402</u> | <u>1,493</u> | <u>1,086</u> |
| | | <u><u>1,402</u></u> | <u><u>1,493</u></u> | <u><u>1,086</u></u> |
| Capital and reserves | | | | |
| Called up share capital | 7.16 | 273 | 250 | 250 |
| Share premium account | 7.17 | 245 | — | — |
| Profit and loss account | 7.17 | 884 | 1,243 | 836 |
| | | <u>1,402</u> | <u>1,493</u> | <u>1,086</u> |
| Equity shareholders' funds | 7.17 | <u><u>1,402</u></u> | <u><u>1,493</u></u> | <u><u>1,086</u></u> |

The accompanying accounting policies and notes form an integral part of this financial information.

6 Cash flow statements

| | | <i>Period ended</i> | <i>Year ended</i> | <i>Year ended</i> |
|--|-------------|-------------------------|-------------------|-------------------|
| | | <i>20 December</i> | <i>31 March</i> | <i>31 March</i> |
| | | <i>2001</i> | <i>2001</i> | <i>2000</i> |
| | <i>Note</i> | <i>£</i> | <i>£</i> | <i>£</i> |
| Net cash inflow/(outflow) from operating activities | 7.18 | 1,833 | (689) | 1,692 |
| Returns on investments and servicing of finance | | | | |
| Interest received | | 224 | 363 | 374 |
| Interest paid | | (6) | (10) | (22) |
| Net cash inflow from returns on investments and servicing of finance | | 218 | 353 | 352 |
| Taxation | | (26) | (132) | (97) |
| Capital expenditure and financial investments | | | | |
| Purchase of fixed assets | | (109) | (148) | (266) |
| Proceeds on disposal of fixed assets | | 25 | 14 | 70 |
| Net cash outflow from capital expenditure and financial investment | | (84) | (134) | (196) |
| Dividends | | | | |
| Equity dividends paid | | — | (350) | (100) |
| Net cash inflow/(outflow) before financing | | 1,941 | (952) | 1,651 |
| Financing | | | | |
| Issue of shares | | 268 | — | — |
| Repayments of amounts borrowed | | — | (235) | (141) |
| Net cash inflow/(outflow) from financing | | 268 | (235) | (141) |
| Increase/(decrease) in cash | 7.19 | 2,209 | (1,187) | 1,510 |

7 Notes to the financial information

7.1 Turnover

The turnover and profit before taxation are attributable to insurance broking and financial services. Although risks may emanate from outside the UK, all risks are actually placed in the UK.

7.2 Analysis of operations

| | <i>Period ended 20 December 2001 £'000</i> | <i>Year ended 31 March 2001 £'000</i> | <i>Year ended 31 March 2000 £'000</i> |
|--------------------------------|--|---|---|
| Net operating expenses | | | |
| Exceptional bad debt provision | 439 | 140 | — |
| Other operating charges | 4,491 | 5,326 | 4,663 |
| | <u>4,930</u> | <u>5,466</u> | <u>4,663</u> |
| Administrative expenses | <u>4,930</u> | <u>5,466</u> | <u>4,663</u> |

7.3 Other operating charges

| | <i>Period ended 20 December 2001 £'000</i> | <i>Year ended 31 March 2001 £'000</i> | <i>Year ended 31 March 2000 £'000</i> |
|---|--|---|---|
| Other operating charges include | | | |
| Staff costs (note 7.4) | 2,793 | 3,180 | 2,381 |
| (Profit)/loss on exchange | (26) | 45 | (5) |
| Depreciation of tangible fixed assets | | | |
| – owned | 102 | 120 | 79 |
| – assets held under finance lease and hire purchase contracts | — | — | 6 |
| Amortisation of goodwill | 7 | 10 | 10 |
| (Profit)/loss on disposal of tangible fixed assets | (2) | 6 | 15 |
| Remuneration of auditors | | | |
| – audit | 36 | 29 | 29 |
| – other services | 66 | 11 | 10 |
| Operating lease rentals | | | |
| – land and buildings | 168 | 176 | 141 |
| – other | 99 | 126 | 93 |
| | <u>168</u> | <u>176</u> | <u>141</u> |
| | <u>99</u> | <u>126</u> | <u>93</u> |

7.4 Employees

The average number of employees, including directors during the period, all of whom were engaged in the activity of insurance broking, is set out below:

| | <i>Period ended 20 December 2001 Number</i> | <i>Year ended 31 March 2001 Number</i> | <i>Year ended 31 March 2000 Number</i> |
|-----------|---|--|--|
| Employees | 98 | 95 | 72 |
| | <u>98</u> | <u>95</u> | <u>72</u> |

Total staff costs were:

| | <i>Period ended</i> | <i>Year ended</i> | <i>Year ended</i> |
|-----------------------|-------------------------|-------------------|-------------------|
| | <i>20 December</i> | <i>31 March</i> | <i>31 March</i> |
| | <i>2001</i> | <i>2001</i> | <i>2000</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Wages and salaries | 2,399 | 2,699 | 2,037 |
| Social security costs | 267 | 283 | 184 |
| Pension contributions | 127 | 198 | 160 |
| | <u>2,793</u> | <u>3,180</u> | <u>2,381</u> |

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in independently administered funds. The pension cost charge shown above represents contributions payable by the group to such funds.

7.5 Directors

| | <i>Period ended</i> | <i>Year ended</i> | <i>Year ended</i> |
|---|-------------------------|-------------------|-------------------|
| | <i>20 December</i> | <i>31 March</i> | <i>31 March</i> |
| | <i>2001</i> | <i>2001</i> | <i>2000</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Remuneration for management services | 175 | 271 | 628 |
| Pension contributions | 10 | 63 | 75 |
| | <u>185</u> | <u>334</u> | <u>703</u> |
| Compensation to a director for loss of office | <u>—</u> | <u>22</u> | <u>—</u> |

During the period ended 20 December 2001: three (2001: three, 2000: three) directors accrued benefits under money purchase pension schemes.

The remuneration and pension contributions to the money purchase pension scheme in respect of the highest paid director was:

| | <i>Period ended</i> | <i>Year ended</i> | <i>Year ended</i> |
|--------------------------------------|-------------------------|-------------------|-------------------|
| | <i>20 December</i> | <i>31 March</i> | <i>31 March</i> |
| | <i>2001</i> | <i>2001</i> | <i>2000</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Remuneration for management services | 145 | 128 | 263 |
| Pension contributions | — | 13 | 55 |
| | <u>145</u> | <u>141</u> | <u>318</u> |

7.6 Interest payable

| | <i>Period ended</i> | <i>Year ended</i> | <i>Year ended</i> |
|---|-------------------------|-------------------|-------------------|
| | <i>20 December</i> | <i>31 March</i> | <i>31 March</i> |
| | <i>2001</i> | <i>2001</i> | <i>2000</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| On bank overdrafts, and other loans wholly repayable within 5 years | <u>6</u> | <u>10</u> | <u>22</u> |

7.7 Taxation

(a) Analysis of (credit)/charge for the period:

| | <i>Period ended 20 December 2001 £'000</i> | <i>Year ended 31 March 2001 £'000</i> | <i>Year ended 31 March 2000 £'000</i> |
|---------------------------------------|--|---|---|
| The tax (credit)/charge comprises | | | |
| UK corporation tax at 30% (2000: 30%) | | | |
| Current year | (198) | 286 | 125 |
| Prior year | (116) | 35 | 6 |
| | <u>(314)</u> | <u>321</u> | <u>131</u> |

(b) Factors affecting tax charge for the year:

| | <i>Period ended 20 December 2001 £'000</i> | <i>Year ended 31 March 2001 £'000</i> | <i>Year ended 31 March 2000 £'000</i> |
|--|--|---|---|
| (Loss)/profit on ordinary activities before tax | (673) | 1,078 | 429 |
| (Loss)/profit on ordinary activities before tax multiplied by standard rate of corporation tax at 30% | (202) | 323 | 129 |
| Expenses not deductible for tax purposes | 47 | 38 | 61 |
| Depreciation for period in excess of capital allowances | 9 | — | (13) |
| Non taxable income | — | (75) | — |
| Movement in provisions | (2) | 4 | — |
| Marginal relief | — | — | (22) |
| Other | (50) | (4) | (30) |
| Current year tax charge | <u>(198)</u> | <u>286</u> | <u>125</u> |

7.8 Dividends

| | <i>Period ended 20 December 2001 £'000</i> | <i>Year ended 31 March 2001 £'000</i> | <i>Year ended 31 March 2000 £'000</i> |
|---|--|---|---|
| Ordinary dividend: | | | |
| 2002 interim dividend of £nil per share (2001: £1.40, 2000: 40p) | — | 350 | 100 |
| | <u>—</u> | <u>350</u> | <u>100</u> |

7.9 *Intangible fixed assets*

Goodwill

| | <i>£'000</i> |
|---|--------------|
| Cost | |
| As at 31 March 2000, 31 March 2001 and 20 December 2001 | 201 |
| Amortisation | |
| As at 1 April 1999 | 24 |
| Charge for year | 10 |
| | <hr/> |
| As at 31 March 2000 | 34 |
| Charge for year | 10 |
| | <hr/> |
| As at 31 March 2001 | 44 |
| Charge for period | 7 |
| | <hr/> |
| As at 20 December 2001 | 51 |
| Net book value | |
| As at 20 December 2001 | 150 |
| | <hr/> <hr/> |
| As at 31 March 2001 | 157 |
| | <hr/> <hr/> |
| As at 31 March 2000 | 167 |
| | <hr/> <hr/> |

Goodwill arising on the acquisition of TL Clowes and Company Ltd in 1996 is being amortised over its estimated useful life of 20 years.

7.10 *Tangible assets*

| | <i>Motor vehicles £'000</i> | <i>Office furniture and equipment £'000</i> | <i>Leasehold improvements £'000</i> | <i>Total £'000</i> |
|------------------------|-------------------------------------|---|---|------------------------|
| Cost | | | | |
| As at 1 April 1999 | 152 | 259 | 102 | 513 |
| Additions | 150 | 116 | — | 266 |
| Disposals | (98) | — | (25) | (123) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 31 March 2000 | 204 | 375 | 77 | 656 |
| Additions | 55 | 93 | — | 148 |
| Disposals | (25) | (3) | — | (28) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 31 March 2001 | 234 | 465 | 77 | 776 |
| Additions | 37 | 72 | — | 109 |
| Disposals | (29) | — | — | (29) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 20 December 2001 | 242 | 537 | 77 | 856 |
| Depreciation | | | | |
| As at 1 April 1999 | 32 | 180 | 97 | 309 |
| Charge for year | 29 | 51 | 5 | 85 |
| Disposals | (13) | — | (25) | (38) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 31 March 2000 | 48 | 231 | 77 | 356 |
| Charge for year | 43 | 77 | — | 120 |
| Disposals | (8) | — | — | (8) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 31 March 2001 | 83 | 308 | 77 | 468 |
| Charge for period | 32 | 70 | — | 102 |
| Disposals | (6) | — | — | (6) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| As at 20 December 2001 | 109 | 378 | 77 | 564 |
| Net book value | | | | |
| As at 20 December 2001 | 133 | 159 | — | 292 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| As at 31 March 2001 | 151 | 157 | — | 308 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| As at 31 March 2000 | 156 | 144 | — | 300 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

7.11 (a) *Fixed asset investments*

| | <i>As at</i> <i>20 December</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2000</i> <i>£'000</i> |
|-------------------------|---|--|--|
| Investment in Firemarks | 10 | 10 | 10 |

(b) *Investments in subsidiary undertakings*

The subsidiary undertakings of THB UK Limited, all of which are wholly owned and registered within England and Wales are listed below, together with the nature of their business.

| <i>Company</i> | <i>Nature of business</i> |
|---------------------------------------|---|
| T L Clowes and Company Limited | Lloyd's accredited insurance broker |
| T L Clowes (Warwick) Limited | Insurance broker |
| T L Clowes Financial Services Limited | PIA registered life and pensions broker |

7.12 *Debtors*

Amounts falling due within one year

| | <i>As at</i> <i>20 December</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2000</i> <i>£'000</i> |
|---|---|--|--|
| Trade debtors | — | 5 | — |
| Amounts due to clients and insurers (note 7.13) | 19,268 | 10,342 | 9,274 |
| Other debtors | 48 | 44 | 48 |
| Prepayments and accrued income | 274 | 186 | 112 |
| | <u>19,590</u> | <u>10,577</u> | <u>9,434</u> |

7.13 *Insurance balances*

- (a) Group companies, as with other insurance brokers, usually act as agents in placing the insurable risks of their clients with insurers and, as such, generally are not liable for amounts arising from such transactions. Notwithstanding the legal relationships with clients and insurers, insurance brokers are entitled to retain investment income on any cash flows arising from insurance broking transactions and, consequently, debtors and creditors arising from such transactions are shown as assets and liabilities of the group.
- (b) The level of insurance broking debtors is not an indication of credit risk because the position of the insurance broker as agent means that generally the credit risk is borne by the principals. Nor is it an indication of future cash flows as it is normal practice for insurance brokers to settle accounts with clients, insurers, other intermediaries and market settlement bureaux on a net basis. The simultaneous recording of an insurance broking transaction between client and insurer results in a high level of correlation between insurance broking debtors and creditors.

7.14 *Creditors: amounts falling due within one year*

| | <i>As at</i> <i>20 December</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2000</i> <i>£'000</i> |
|---|---|--|--|
| Bank loans and overdrafts | — | 49 | 235 |
| Amounts due to clients and insurers (note 7.13) | 25,812 | 14,101 | 14,309 |
| Corporation tax | — | 317 | 128 |
| Other taxation and social security | 207 | 308 | 392 |
| Other creditors | 332 | 369 | 208 |
| Accruals and deferred income | 399 | 356 | 627 |
| Finance lease creditors | — | 9 | 5 |
| | <u>26,750</u> | <u>15,509</u> | <u>15,904</u> |

7.15 *Creditors: amounts falling due after more than one year*

| | <i>As at</i> <i>20 December</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2000</i> <i>£'000</i> |
|-------------------------|---|--|--|
| Finance lease creditors | — | — | 9 |
| | <u>—</u> | <u>—</u> | <u>9</u> |

7.16 *Share capital*

| | <i>As at</i> <i>20 December</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2001</i> <i>£'000</i> | <i>As at</i> <i>31 March</i> <i>2000</i> <i>£'000</i> |
|------------------------------------|---|--|--|
| Authorised | | | |
| Ordinary shares of £1 each | <u>310</u> | <u>310</u> | <u>310</u> |
| Allotted, called up and fully paid | | | |
| Ordinary shares of £1 each | <u>273</u> | <u>250</u> | <u>250</u> |

On 18 December 2001 the company made an allotment of 23,000 ordinary shares on the exercise of employee share options.

7.17 *Reconciliation of movement in shareholders' funds*

| | <i>Share</i> <i>capital</i> <i>£'000</i> | <i>Share</i> <i>premium</i> <i>£'000</i> | <i>Profit and</i> <i>loss account</i> <i>£'000</i> | <i>Total</i> <i>shareholders'</i> <i>funds</i> <i>£'000</i> |
|-------------------------------|--|--|--|--|
| At 1 April 1999 | 250 | — | 638 | 888 |
| Profit for the financial year | — | — | 298 | 298 |
| Dividends | — | — | (100) | (100) |
| At 31 March 2000 | <u>250</u> | <u>—</u> | <u>836</u> | <u>1,086</u> |
| Profit for the financial year | — | — | 757 | 757 |
| Dividends | — | — | (350) | (350) |
| At 31 March 2001 | <u>250</u> | <u>—</u> | <u>1,243</u> | <u>1,493</u> |
| Shares issued in period | 23 | 245 | — | 268 |
| Loss for the financial period | — | — | (359) | (359) |
| At 20 December 2001 | <u>273</u> | <u>245</u> | <u>884</u> | <u>1,402</u> |

7.18 *Net cash inflow/(outflow) from operating activities*

| | <i>Period ended 20 December 2001 £'000</i> | <i>Year ended 31 March 2001 £'000</i> | <i>Year ended 31 March 2000 £'000</i> |
|---|--|---|---|
| Operating (loss)/profit | (891) | 725 | 77 |
| Depreciation | 102 | 120 | 85 |
| (Profit)/loss on sale of fixed assets | (2) | 6 | 15 |
| Amortisation | 7 | 10 | 10 |
| Increase in debtors | (9,013) | (1,143) | (4,549) |
| Increase/(decrease) in creditors | 11,630 | (407) | 6,054 |
| Net cash inflow/(outflow) from operating activities | <u>1,833</u> | <u>(689)</u> | <u>1,692</u> |

7.19 *Reconciliation of net cash flow to movement in net funds*

| | <i>Period ended 20 December 2001 £'000</i> | <i>Year ended 31 March 2001 £'000</i> | <i>Year ended 31 March 2000 £'000</i> |
|--|--|---|---|
| Increase/(decrease) in cash for the period | 2,209 | (1,187) | 1,510 |
| Cash outflow from financing | — | 235 | 141 |
| Changes in net funds resulting from cash flows | <u>2,209</u> | <u>(952)</u> | <u>1,651</u> |
| Net funds at start of period | 5,901 | 6,853 | 5,202 |
| Net funds at end of period | <u>8,110</u> | <u>5,901</u> | <u>6,853</u> |

7.20 *Analysis of changes in net funds*

| | <i>At 1 April 1999 £'000</i> | <i>Cash flows £'000</i> | <i>Non cash movements £'000</i> | <i>At 31 March 2000 £'000</i> |
|--------------------------|--------------------------------------|-----------------------------|---|---------------------------------------|
| Cash at bank and in hand | 5,578 | 1,510 | — | 7,088 |
| Debt due within one year | (188) | 141 | (188) | (235) |
| Debt due after one year | (188) | — | 188 | — |
| | <u>5,202</u> | <u>1,651</u> | <u>—</u> | <u>6,853</u> |

| | <i>At 1 April 2000 £'000</i> | <i>Cash flows £'000</i> | <i>At 31 March 2001 £'000</i> |
|--------------------------|--------------------------------------|-----------------------------|---------------------------------------|
| Cash at bank and in hand | 7,088 | (1,138) | 5,950 |
| Overdrafts | — | (49) | (49) |
| Debt due within one year | (235) | 235 | — |
| | <u>6,853</u> | <u>(952)</u> | <u>5,901</u> |

| | <i>At 1 April</i> | <i>Cash flows</i> | <i>At</i> |
|--------------------------|---------------------|---------------------|---------------------|
| | <i>2001</i> | | <i>20 December</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>2001</i> |
| | | | <i>£'000</i> |
| Cash at bank and in hand | 5,950 | 2,160 | 8,110 |
| Overdrafts | (49) | 49 | — |
| | <u>5,901</u> | <u>2,209</u> | <u>8,110</u> |
| | <u><u>5,901</u></u> | <u><u>2,209</u></u> | <u><u>8,110</u></u> |

7.21 *Capital commitments*

At 20 December 2001, 31 March 2001 and 31 March 2000 the group did not have any capital commitments.

7.22 *Contingent liabilities*

At 20 December 2001, 31 March 2001 and 31 March 2000 the group did not have any contingent liabilities.

7.23 *Lease commitments*

Certain group companies entered into non-cancellable lease arrangements. The commitments in respect of the forthcoming years can be analysed as follows:

| | <i>As at</i> | <i>As at</i> | <i>As at</i> |
|---------------------------------------|--------------------|-------------------|-------------------|
| | <i>20 December</i> | <i>31 March</i> | <i>31 March</i> |
| | <i>2001</i> | <i>2001</i> | <i>2000</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| <i>Operating leases which expire:</i> | | | |
| Land and buildings | | | |
| Within one year | — | 17 | — |
| Two to five years | 200 | 219 | 250 |
| | <u>200</u> | <u>236</u> | <u>250</u> |
| | <u><u>200</u></u> | <u><u>236</u></u> | <u><u>250</u></u> |
| Other | | | |
| Within one year | 28 | 9 | 26 |
| Two to five years | 106 | 84 | 52 |
| | <u>134</u> | <u>93</u> | <u>78</u> |
| | <u><u>134</u></u> | <u><u>93</u></u> | <u><u>78</u></u> |

The total charge for lease rentals is disclosed in note 7.3.

Yours faithfully

GRANT THORNTON

PART FOUR
PROFIT FORECAST

The Directors, having made due and careful enquiry, forecast that the consolidated profit before tax of THB for the six months ending 31 October 2002 will be, in the absence of unforeseen circumstances outside the control of the Directors and on the basis set out below, £1.5 million. The forecast of results is set out below:

| | <i>Forecast six months ending 31 October 2002 £'000</i> |
|--------------------------------------|---|
| Turnover | 10,000 |
| Operating profit | 1,300 |
| Net interest | 200 |
| Profit before tax | 1,500 |
| Tax on profit on ordinary activities | (562) |
| Profit after tax | 938 |
| Earnings per share | 4.5p |

Basis of preparation:

- (a) The forecast is made before interest earned on the funds raised in the Placing.
- (b) The forecast earnings per share is made before taking account of new ordinary shares issued in the Placing.
- (c) The forecast is based on two months' management accounts, one further months' actual revenue and management forecasts for the remainder of the six months period.

Assumptions:

The principal assumptions for the forecast period for each factor that could have a material effect on the achievement of the forecast are:

- (a) The US\$:£ exchange rate remains at US\$1.52 : £1;
- (b) The UK bank base rate remains at 4 per cent per annum;
- (c) There are no catastrophic events that might affect the insurance market, such as the events of 11 September 2001;
- (d) There is no significant change in the financial position of any of the major insurers with whom the Group does business;
- (e) Revenue follows the seasonal profile that it has demonstrated over recent years;

Result for the six months ended 31 October 2001

The comparative result for the six months ended 31 October 2001, based on unaudited management information, exceeds that shown above. The Directors believe that this is due to the effects of the events of 11 September 2001, which continued to affect the Group in the first quarter of the current financial year, and due to the seasonality of the TLC business. The results of the TLC business, which was acquired in December 2001, favour the second half of the year.



The Directors
THB Group plc
12 Poverest Road
Orpington
Kent BR5 2TP

25 September 2002

Dear Sirs

We refer to the forecast of results of THB Group plc and its subsidiary undertakings for the six months ending 31 October 2002 as set out on page 60 of the prospectus of THB Group plc dated 25 September 2002.

We have discussed the forecast of results together with the bases and assumptions upon which it has been made with you.

On the basis of the foregoing, we consider that the profit forecast referred to above, for which you as Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully
for Numis Securities Limited

Charles Crick
Director

PART FIVE

ADDITIONAL INFORMATION

1. Responsibility Statement

The Directors whose names appear on page 4 of this document accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company and its Share Capital

- 2.1. The Company was incorporated and registered in England and Wales as a private limited company on 28 August 1980 under the Companies Act 1948 with the name Nevrus Sixty-Four Limited and with registered number 1514749. The Company is now subject to the Act.
- 2.2. On 25 November 1980, the Company changed its name to Thompson Heath & Bond (Holdings) Limited. On 27 August 2002 the Company re-registered as a public limited company and changed its name to THB Group plc.
- 2.3. The liability of the members of the Company is limited.
- 2.4. On incorporation, the authorised share capital of the Company was 100 ordinary shares of £1 each with 2 ordinary shares of £1 issued to the subscribers to the Memorandum of Association and subsequently paid up in cash at par. Since then, the following changes have been made to the authorised share capital of the Company:
 - (a) by a resolution of the Company passed on 29 October 1980, the authorised share capital of the Company was increased from £100 to £100,100 by the creation of 100,000 new Ordinary Shares of £1 each ranking *pari passu* in all respects with the existing share capital of the Company;
 - (b) by a resolution of the Company passed on 8 April 1982, the authorised share capital of the Company was increased from £100,100 to £150,000 by the creation of 49,900 new Ordinary Shares of £1 each ranking *pari passu* in all respects with the existing share capital of the Company;
 - (c) by a resolution of the Company passed on 18 April 1985, the authorised share capital of the Company was increased from £150,000 to £250,000 by the creation of 100,000 new Ordinary Shares of £1 each ranking *pari passu* in all respects with the existing share capital of the Company;
 - (d) by a resolution of the Company passed on 29 April 1986, each of the existing ordinary shares of £1 each was subdivided into 10 ordinary shares of 10p each and the authorised share capital of the Company was increased from £250,000 to £500,000 by the creation of 2,500,000 new Ordinary Shares of 10p each ranking *pari passu* in all respects with the existing share capital of the Company as sub-divided;
 - (e) by a resolution of the Company passed on 10 January 1989, the authorised share capital of the Company was increased from £500,000 to £2,500,000 by the creation of 20,000,000 new Ordinary Shares of 10p each ranking *pari passu* in all respects with the existing share capital of the Company; and
 - (f) by a special resolution of the Company passed on 12 August 2002, the authorised share capital of the Company was increased from £2,500,000 to £5,000,000 by the creation of 25,000,000 new Ordinary Shares of 10p each ranking *pari passu* in all respects with the existing share capital of the Company.
- 2.5. Ordinary and Special Resolutions of the Company were passed on 25 September 2002 which:
 - (a) authorised the directors of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal value of share capital as represents the sum of:
 - (i) Ordinary Shares up to the nominal value of £500,000 to be allotted pursuant to the Placing;
 - (ii) one third of the issued share capital immediately following the Placing; and
 - (iii) the Ordinary Shares subject to the option granted to Numis Securities Limited (as described in paragraph 9.8 below) together with those to be issued pursuant to the Share Incentive Schemes as more particularly described in paragraph 4 below;

provided that such authority shall expire on the earlier of 15 months or the holding of the next AGM of the Company save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and accordingly the directors of the Company may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired;

- (b) empowered the directors of the Company pursuant to section 95 of the Act to allot equity securities for cash (as defined in section 94 of the Act) as if section 89(1) of the Act did not apply to any such allotment, such power limited to:
- (i) the allotment of equity securities up to the nominal value of £500,000 pursuant to the Placing;
 - (ii) the allotment of equity securities pursuant to the option granted to Numis Securities Limited (as described in paragraph 9.8 below) together with those to be issued pursuant to the Share Incentive Schemes as more particularly described in paragraph 4 below;
 - (iii) the allotment (otherwise than pursuant to (i) and (ii) above) of equity securities to the value of not more than 5 per cent. of the issued share capital immediately following the Placing;
 - (iv) the allotment of equity securities where such securities have been offered (whether by way of rights issue, open offer or otherwise) to the Shareholders in proportion (as nearly as practicable) to the respective number of Ordinary Shares held by them but subject to such exclusion or other arrangements as the directors of the Company may consider appropriate, necessary or expedient to deal with legal, practical or regulatory problems in respect of overseas shareholders, fractional entitlements or otherwise

provided that this authority would expire on the earlier of 15 months or the holding of the next AGM of the Company, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and accordingly the directors of the Company may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired.

- 2.6. The following table sets out the authorised and issued share capital of the Company as applies as at the date of this document and as it will be immediately following Admission:

| | <i>Authorised</i> | | <i>Issued</i> | |
|---------------------------------|-------------------|---------------|---------------|---------------|
| | <i>Number</i> | <i>Amount</i> | <i>Number</i> | <i>Amount</i> |
| On the date of this document | 50,000,000 | £5,000,000 | 21,100,000 | £2,110,000 |
| Immediately following Admission | 50,000,000 | £5,000,000 | 26,100,000* | £2,610,000* |

* Assuming that the 250,000 Ordinary Shares made available for employees of the Group and persons connected with them are fully subscribed.

- 2.7. All of the shares in issue are fully paid up.

3. Memorandum and Articles of Association

- 3.1. The objects of the Company are set out in clause 4 of its Memorandum of Association, which provides that the Company's principal objects are, amongst others, to carry on business as a general commercial company and holding company.
- 3.2. The Articles of Association of the Company (the "Articles") contain provisions, amongst others, to the following effect:

- (a) **Voting Rights**

On a show of hands, every member who (being an individual) is present in person or (being a corporation) is present by a representative shall have one vote, and on a poll every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a representative or by proxy shall have one vote for every share of which he is the holder. This right is subject to any special rights or restrictions as to voting attached to any shares and to the provisions of the Articles.

The Articles provide that no member shall, unless the Board otherwise determines, be entitled in respect of shares held by him to be present at or to vote at a general meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company if he or any person appearing to be interested in such shares has failed to comply with a notice given under section 212 of the Act. In addition, no member shall be entitled to be

present or to be counted in the quorum to vote at any general meeting either in person or by proxy unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

A member on whom a Disposal Notice has been served under the Articles (as set out at subparagraph 3.2(h) below) shall not, in respect of the number of Excess Shares held by him and the subject of the Mandated Disposal, be entitled, with effect from the date of service of such notice, to receive notice of, or to attend or to vote at, any general meeting of the company or meeting of the members of any relevant class of shares or to exercise any other rights conferred by the membership in relation to any such meeting in respect of such Excess Shares.

The rights to attend (whether in person or by representative or proxy), to speak and to demand and vote on a poll which would have attached to the Excess Shares shall vest in the Chairman of any such meeting. The manner in which the Chairman exercises or refrains from exercising any such rights shall be entirely at his discretion. The Chairman of any such meeting shall be informed by the Board if there has been a Disposal Notice in respect of any shares. However, unless and until a Disposal Notice is served on a member, the exercise by that person of any right attaching to any share in which he is interested shall not be challenged or invalidated by any subsequent determination by the directors that such person is a Controller.

(b) Variation of Rights

The rights or privileges attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be varied, whether or not the Company is being wound up, either with the consent in writing of the holders of three fourths in nominal amount of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders and then only subject to section 127 of the Act.

The special rights conferred upon the holders of any shares or class of shares issued with preferred or other special rights shall not be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith or subsequent thereto unless expressly provided for by the Articles or by the terms of issue of such shares. Special rights shall be deemed to be varied by the reduction of the capital paid up on those shares and by the creation and issue of further shares ranking in priority for payment of dividend or in respect of capital or which confer on the holders voting rights more favourable than those conferred by the first mentioned shares.

(c) Dividends

The profits of the Company available for distribution and resolved to be distributed shall be applied in the payment of dividends to the members in accordance with their respective rights and priorities. The Company in general meeting may declare dividends accordingly.

Except as otherwise provided all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. If any share is issued on terms providing that it shall carry any particular rights as to dividend such share shall rank for dividend accordingly.

The Board may deduct from any dividend payable to any member on or in respect of a share all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to shares in the Company.

All dividends unclaimed for a period of 12 years after having been declared shall be forfeited and shall revert to the Company.

The Board may, with the prior authority of an ordinary resolution of the Company, offer holders of a particular class of shares the right to elect to receive further shares of that class, credited as fully paid, instead of cash in respect of all or part of any dividend specified by the ordinary resolution, or to forego their entitlement to all or any part of any dividend declared or payable on any ordinary share held by them and to take instead fully paid bonus shares, subject to such exclusions, restrictions or other arrangements as the Board may in its absolute discretion deem necessary.

Where a member of the Company or a person appearing to be interested in shares held by that member has failed to comply with a section 212 notice within 28 days and the shares in question represent at least 0.25 per cent. in nominal value of the issued shares of that class, then the Board may direct that any dividend or other money which would otherwise be payable in

respect of each of the shares be retained by the Company without any liability to pay interest thereon when such money is finally paid to the member and that the member is not entitled to receive shares instead of a dividend.

(d) Pre-emption rights

The Company's Articles contain no provisions as to rights of pre-emption on either the transfer, issue or allotment of shares. The provisions of section 89 of the Act (which confer on Shareholders rights of pre-emption in respect of the allotment of equity securities (within the meaning of section 94(2) of the Act) which are, or are to be, paid up in cash (other than by way of allotment to employees under an employees' share scheme (within the meaning of section 743 of the Act)) apply to the authorised but unissued share capital of the Company except to the extent that such provisions are disapplied.

(e) Winding up

The liquidator on any winding-up of the Company (whether voluntary or under supervision or compulsory) may with the authority of an extraordinary resolution, divide among the members in specie the whole or any part of the assets of the Company (whether or not the assets are of different kinds), and for such purpose may set such value as he deems fair upon any such assets, and may determine how such division shall be carried out as between members or classes of members. The liquidator may, with like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but no member shall be compelled to accept any shares or other securities which are not fully paid.

(f) Purchase of own shares

Subject to the Statutes, any shares may be issued on terms that they are, or (at the option of the Company or the members) are liable to be, redeemed on such terms and in such manner as the Company before the issue of the shares may by special resolution determine. The Company may purchase its own shares (including any redeemable shares) in any manner the Board considers appropriate. No purchase by the Company of its own shares may be made except with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of any class of convertible securities.

(g) Transfer of Shares

Except as otherwise provided by the Statutes and the Articles, all transfers of shares in certificated form shall be effected by instrument in writing in any common form or in such other form as the Board may approve and shall be signed by or on behalf of the transferor and (except in the case of a fully paid up share) the transferee and left at the registered office of the Company or at such other place as the Board may from time to time determine and transfers of shares in uncertificated form shall be effected by means of the relevant system concerned, in accordance with the Statutes, the CREST Regulations and rules, regulations, procedures, facilities and requirements of that relevant system, and, subject to the Statutes, the transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the register in respect thereof.

Subject to the Statutes, the Board may, in its absolute discretion, refuse to register any instrument of transfer of, or which includes, shares which are not fully paid up (provided that where such shares are admitted to the Official List or admitted for trading on AIM, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis), or on which the Company has a lien, but shall not be bound to specify the grounds upon which such registration is refused. Subject to the Statutes, the Board may also refuse to register any instrument of transfer of shares where:

- (i) in the case of shares held in certificated form, the instrument of transfer, duly stamped, is not deposited at the registered office or such other place as the Board may appoint accompanied (save in the case of a transfer by a stock exchange nominee where a certificate has been issued in respect of the relevant shares) by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- (ii) it is not in respect of one class of share only;
- (iii) in the case of a transfer to joint holders, they exceed four in number;

- (iv) it is in favour of a minor;
- (v) in the case of shares held in certificated form, it is in favour of a bankrupt or person of unsound mind; and
- (vi) without prejudice to the foregoing, in the case of shares held in uncertificated form, such refusal is permitted by the CREST Regulations and the rules, regulations, procedures, facilities and requirements of the relevant system concerned.

If the Board refuses to register a transfer, it shall, in the case of shares held in certificated form, within two months after the date on which the transfer was lodged with the Company, and in the case of shares held in uncertificated form, within two months after the date on which the relevant operator-instruction (as such term is defined in the CREST Regulations) was received by or on behalf of the Company, send to the transferee notice of the refusal.

Where a member of the Company or a person appearing to be interested in shares held by that member has failed to comply with a section 212 notice within 28 days and the shares in question represent at least 0.25 per cent. in nominal value of the issued shares of that class, then the Board may direct that no transfer of any of those shares shall be registered unless the member is not himself in default as regards supply the information and the member proves to the satisfaction of the Board that the person in default supplying the sanction required is interested in any of the shares the subject of the transfer or registration of the transfer is required by the CREST Regulations.

(h) Controller provisions

If any person and/or any of his associates acquires or proposes to acquire a Notifiable Holding (as defined below) in the Company, he shall notify the Company immediately upon such acquisition or within 14 days of such proposal and shall notify the FSA in accordance with the provisions of Part XII of FSMA. “Notifiable Holding” means the holding of voting powers or shares which if acquired by any person and/or any of his associates will result in the acquisition of or increase in his control of the Company within the meaning of the Part XII of FSMA.

Without prejudice to the provisions of the Act and FSMA, and subject to the Articles, the Board may assume without enquiry that a person has not acquired or increased his control over the Company within the meaning of Part XII of FSMA and does not propose to do so provided that if the information contained in the register kept by the Company appears to the Board to indicate to the contrary or if the Board has reason to believe otherwise, the Board shall make reasonable enquiries to discover whether any person has acquired or increased his Control over the Company within the meaning of Part XII of FSMA or proposes to do so. “Control” has the same meaning as in sections 179 and 180 of FSMA.

The Board may, at any time, serve a notice upon any member requiring him to furnish the Board with such information as the Board may require for the purpose of determining whether such member and/or his associates is a Controller or proposes to become a Controller. “Controller” means any person and/or any of his associates who acquires or increases his control over the Company within the meaning given to the expression in sections 179 and 180 of FSMA.

If the Board determines, whether pursuant to a notice from a person that he and/or any of his associates has acquired a Notifiable Holding or pursuant to information furnished in respect of a notice under the Articles or on any other basis, that that person is a Controller, and that person:

- (i) fails to notify the Company in accordance with the Articles;
- (ii) fails to comply with the duty to notify the FSA in the manner prescribed in Part XII of FSMA;
- (iii) incorrectly notifies the FSA of the acquisition or increase in Control or any proposal thereof;
- (iv) fails to comply with any condition attaching to any approval granted by the FSA; or
- (v) receives a notice of objection from the FSA in relation to the acquisition or increase in Control over the Company, the Board shall be entitled, but not obliged, to decline to register any allotment or transfer in respect of the Notifiable Holding and/or (in respect of any Notifiable Holding which has been registered) to serve a written notice (“Disposal Notice”) on that member.

The Disposal Notice shall set out:

- (i) the voting restrictions set out in the Articles;
- (vi) the requirement for a “Mandated Disposal”, that is the sale and transfer of Excess Shares required by the Board;
- (vii) the number of Excess Shares (as defined below) in respect of which the Mandated Disposal is to be made; and
- (viii) the requirement that such Mandated Disposal be made within 21 days of the giving of the Notice or such longer period as the Board considers reasonable.

“Excess Shares” are the shares which are required to be disposed of under a Mandated Disposal: (a) to cause a Controller (i) to cease to fall within the meaning of such term, or (ii) to cease to have a Notifiable Holding; or (b) to cease any breach of the Lloyd’s Act 1982.

The Board may extend the period in which any Disposal Notice is required to be complied with and may withdraw any such Disposal Notice (whether before or after the expiration of the period referred to) at its discretion.

After the giving of a Disposal Notice, no transfer of any of the Excess Shares may be registered until either the Disposal Notice is withdrawn or the Mandated Disposal has been made to the satisfaction of the Board and the transfer of the Excess Shares registered.

If, in relation to a Disposal Notice, Excess Shares are held by more than one member (where members are associates, as defined in Part XII of FSMA), the Disposal Notice shall set out the number of Excess Shares to be disposed of by each member and shall apportion these as nearly as practicable to the same proportion of each shareholding (so far as known to it) to be sold.

If a Disposal Notice given under the Articles has not been complied with in all respects to the satisfaction of the Board and has not been withdrawn, the Board shall, so far as it is able, make a Mandated Disposal (or procure that a Mandated Disposal is made) as soon as is reasonably practicable after the expiry of the Disposal Notice and shall give written notice of that Mandated Disposal to the member on whom the Disposal Notice was served.

The member shall be deemed irrevocably and unconditionally to have authorised the Board to make the Mandated Disposal referred to above. The manner, timing and terms of any such Mandated Disposal made or sought to be made by the Board (including but not limited to the price or prices at which the sale was made) shall be such as the Board determines, based on advice of bankers, brokers or other persons as the Board considers appropriate to consult for these purposes, having regard to all the circumstances, including but not limited to the number of Excess Shares to be disposed of and the requirement that the Mandated Disposal be made as soon as reasonably practicable after the expiry of the Disposal Notice. The Board shall not be liable to any person for any of the consequences of reliance on such advice.

For the purpose of effecting any Mandated Disposal, the Board may authorise in writing any director of the Company to execute any necessary transfer on behalf of any member and may enter the name of the transferee or transferees in the register of members in respect of the Excess Shares, notwithstanding the absence of any share certificate and may issue a new certificate to the transferee. An instrument of transfer executed by such person shall be as effective as if it had been executed by the registered holder of the Excess Shares and the title of the transferee shall not be affected by any irregularity or invalidity of the proceedings relating thereto.

The net proceeds of any Mandated Disposal shall be received by the Company, whose receipt shall be a good discharge for the purchase money and shall be paid (without any interest being payable in respect of it and after deduction of any expenses incurred by the Board on the sale) to the former holder together with, if appropriate, a new certificate in respect of the balance of shares to which the member is entitled upon surrender by the member or on his behalf of any certificate in respect of the Excess Shares sold and formerly held by him.

Unless and until a Disposal Notice is served on a member, the exercise by that person of any right attaching to any share in which he is interested shall not be challenged or invalidated by any subsequent determination by the directors that such person is a Controller.

If the Board does not serve any Disposal Notice pursuant to the Articles because it does not know the identity or address of the member on whom it may give such a Notice, then in the absence of serving such a Notice in such circumstances and any accidental error in or failure to serve notice on any member to whom notice may be given shall not prevent the implementation of or invalidate any procedure under this Article.

If the Board becomes aware that there is a breach of the provisions in the Lloyd's Act 1982 as a result of any member owning Shares in the Company it may serve a Disposal Notice on any such member requiring a Mandated Disposal as set out above.

(i) Directors' fees

In addition to any emoluments to which they may be entitled under a contract for service or a contract of services, the Directors may be paid out of the funds of the Company such sum by way of Directors' fees as the Board may from time to time determine provided that they shall not in any one year exceed in aggregate the sum of £250,000, or such other sum as may from time to time be approved by ordinary resolution. They may be paid an additional sum in respect of extra services or special exertions in going or residing abroad or otherwise.

(j) Borrowing Powers

Except as otherwise provided the Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (so far, as regards subsidiaries, as by such exercise they can secure) that the aggregate amount for the time being remaining undischarged of all moneys borrowed by the Group (exclusive of moneys borrowed by one member of the Group from another) shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to three times the share capital and consolidated reserves of the Company. For the purposes of the said limit the issue of debentures shall be deemed to constitute borrowing notwithstanding that the same may be issued in whole or in part for a consideration other than cash.

4. Share Plans

On 25 September 2002 the Directors resolved to establish the Company Share Option Plan and the Share Incentive Plan, in each case subject to Inland Revenue approval. A summary of the terms of each plan follows.

4.1. *Company Share Option Plan*

(a) Eligibility

Any director or employee of the Group who is employed on terms which require him to devote not less than 20 hours per week (exclusive of meal breaks) to his duties (25 hours per week excluding meal breaks in the case of directors) will be eligible to participate at the discretion of the remuneration committee.

(b) Options

Options will entitle the holder to subscribe for Ordinary Shares. Options are personal to the holder and may not be transferred or assigned. Options lapse upon the bankruptcy of the holder. No payment will be required for the grant of an option.

(c) Subscription price

The subscription price per Ordinary Share at which options may be exercised is such amount as may be determined on grant by the remuneration committee, being not less than the higher of:

(i) the nominal value of an Ordinary Share; and

(ii) the market value of an Ordinary Share agreed prior to grant with the Inland Revenue unless Ordinary Shares are quoted on the Official List, in which case market value is measured by the arithmetic average of the middle-market quotations derived from the Official List for the three dealing days immediately preceding the date of grant.

(d) Timing

In the absence of exceptional circumstances, options may only be granted during the six-week period immediately following Admission or the announcement of the Company's interim or final financial results for any period. No option may be granted more than ten years after Admission.

(e) Performance criteria

The extent to which options may be exercised will normally depend on the performance of the Group over a period of not less than three years, beginning no earlier than the commencement date of the accounting period of the Company during which the award is made. Performance criteria will be set out in option certificates, the terms of which will be at the discretion of the remuneration committee. It is currently envisaged that option exercise will be conditional upon compound growth in earnings per share of 3 per cent or more per annum (after inflation) over any three year period.

First option grants to incoming staff or teams may be subject to different conditions. For example, grants may be subject to conditions set by reference to the turnover or profits of an individual business unit.

(f) Exercise of options

Options may not be exercised later than ten years after their date of grant. In normal circumstances an option may not be exercised earlier than three years after its date of grant, but subject to the following exceptions:

- (i) if a holder ceases to be a director or employee of the Group by reason of injury, disability, retirement or redundancy, he may exercise his option within six months of the date of cessation failing which the option will lapse;
- (ii) if a holder ceases to be a director or employee of the Group by reason of his employing company leaving the Group or by reason of a business transfer in favour of a non-Group purchaser, he may exercise his option within six months of the date of cessation failing which the option will lapse;
- (iii) if a holder ceases to be a director or employee of the Group for any reason other than as specified in sub-paragraph (i) or (ii) above or death, his option will automatically lapse unless the remuneration committee in its discretion decides within three months of such cessation that it may be exercised in whole or part, in which case it may be exercised within three months of notification of such decision;
- (iv) if a holder dies his personal representatives may exercise his option within twelve months of the date of his death failing which it will lapse;
- (v) if another company acquires control of the Company as a result of a general offer for the whole of the issued share capital of the Company the option may be exchanged for an option over shares of the acquiring company in equivalent terms to the old option if the acquiring company so agrees. Otherwise, a holder may exercise his option within six months of the change of control failing which it will lapse. If a company becomes entitled to acquire shares in the Company compulsorily the option will lapse at the end of the period during which the acquiring company is so entitled;
- (vi) if the court sanctions a compromise arrangement for the purposes of or in connection with a scheme of reconstruction for the Company, a holder may exercise his option within three months after such sanction, failing which it will lapse; and
- (vii) if notice is given of a resolution for the voluntary winding up of the Company a holder will be entitled, until the commencement of the winding up, to exercise his option, failing which it will lapse.

Where exercise is permitted pursuant to the circumstances set out at sub-paragraphs (i) to (vii) above the performance condition does not apply.

(g) Share rights

Ordinary Shares issued on exercise of an option rank *pari passu* in all respects with the shares in issue on the date of exercise, except that they do not entitle holders to receive any dividends or other distributions declared for payment to the holders of shares on the register of members at a record date which precedes the date of exercise.

Application will be made to the London Stock Exchange for the Ordinary Shares issued on exercise of an option to be admitted to trading on AIM.

(h) Individual limitations

No director or employee may be granted an option if the subscription cost in relation to that option, taken together with the amount paid or payable on the exercise of any rights granted to him to acquire shares under the Company Share Option Plan or any other approved option scheme (excluding savings related share option schemes) exceeds £30,000.

(i) Scheme limitations

The aggregate number of Ordinary Shares over which options may be granted is limited so that when aggregated with the number of Ordinary Shares issued or issuable in respect of awards under the Share Incentive Plan and any other employees' share scheme as well as options granted under the Company Share Option Plan and any other share option scheme adopted by the Company, it shall not exceed 10 per cent. of the ordinary share capital of the Company in issue.

(j) Effect on pensions

Options will not be pensionable.

(k) Adjustment of options

Provision is made for the number of shares comprised in any option and/or the subscription price to be adjusted in the event of any issue of shares or other securities of the Company by way of capitalisation (but excluding any scrip dividend) or upon any consolidation, sub-division, reduction or other variation of the Company's share capital.

No such adjustment may be made without the prior consent of the Inland Revenue or unless the auditors of the Company confirm that it is fair and reasonable.

(l) Unapproved options

The Company Share Option Plan has been drafted to comply with relevant UK tax legislation so that options attract a favourable taxation treatment. Individual participation is limited by reason of the £30,000 limit referred to at sub-paragraph (h) above. A schedule to the plan provides for the grant of unapproved options in excess of this limit, essentially on the same terms save that:

- (i) the first grant to an individual is not restricted to the times set out at paragraph (d) above. Such a grant may take place at any time subject to the Model Code for transactions in securities by directors, certain employees and persons connected with them.
- (ii) where exercise is permitted pursuant to the circumstances set out at sub-paragraph (f)(v) above the disapplication of the performance condition is at the discretion of the remuneration committee; and
- (iii) if the remuneration committee decides an option may be granted on terms contained in the option certificate such that exercise, in whole or part, will be subject to such longer or shorter period than the three years referred to at paragraph (f) above.

With the exception of the first grant to an individual, any grant is subject to an annual individual limitation to the effect that no grant may be made if the subscription cost taken together with the amount payable on the exercise of any approved options granted to him in that year exceeds 100 per cent of his annual salary (including bonuses).

(m) Amendments to plan

The remuneration committee will have authority to amend the Company Share Option Plan, provided that no amendment for the benefit of participants will be made without the previous sanction of the Company in general meeting (except that this restriction does not apply to minor amendments to benefit the administration of the Company Share Option Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the participants or any member of the Group). Amendments are also subject to the prior approval of the Inland Revenue.

4.2. *Share Incentive Plan*

(a) Eligibility

All eligible employees (including directors) of the Group will be entitled to participate. Eligibility depends on the type of award which is proposed to be made.

In relation to an award of free shares an eligible employee is any person who is on the date of the award:

- (i) an employee of the Company or any nominated subsidiary;
- (ii) has at all times throughout a maximum period of 18 months from the date of the award of free shares been an employee of a qualifying company;
- (iii) does not have and has not had within the 12 month period preceding the date of the award a material interest in a close company whose shares may be appropriated under the Share Incentive Plan or a company which controls such a company;
- (iv) is not participating in an approved profit sharing scheme under Schedule 9 of the Income and Corporation Taxes Act 1988 or another Inland Revenue approved employee share incentive plan established by the Company which provides for free shares to be appropriated to employees without payment; and
- (v) is chargeable to tax under Case I of Schedule E to the Income and Corporation Taxes Act 1988 or is not so chargeable but is nominated by the remuneration committee to be eligible for an award of shares.

In relation to an award of partnership shares or matching shares an eligible employee is any person who, on the date upon which the first deduction is made from his salary to purchase partnership shares, satisfies the requirements set out in sub-paragraphs (ii), (iii) and (iv) above and:

- (i) has at all times during the period of six months ending on the start of the accumulation period relating to the partnership share award been an employee of a qualifying company; and
- (vi) is not participating in another Inland Revenue approved share incentive plan established by the Company under Schedule 8 to the Finance Act 2000 (as amended).

(b) Operation

There are four methods of acquiring Ordinary Shares under the Share Incentive Plan. The Remuneration Committee can:

- (i) make an award of “free shares”;
- (ii) give employees the opportunity to invest in “partnership shares”;
- (iii) make an award of “matching shares” to those employees who have invested in “partnership shares”. (free shares, partnership shares and matching shares are together called “plan shares”); and
- (iv) require employees to reinvest dividends paid on their plan shares in further shares (“dividend shares”).

(c) Free shares

The Company may give free shares up to a maximum annual value, currently set by the Finance Act 2000 at £3,000 per employee in any single tax year.

The award of free shares may be conditional on performance measures set by the Remuneration Committee and notified to all employees. Any performance measures must be based on business results or other objective criteria, and be fair and objective measures of the performance of the units to which they apply. Otherwise, free shares must be awarded to employees on the same terms save that variation by reference to remuneration, length of service or hours worked is permitted.

(d) Partnership shares

The Company may provide employees with the opportunity to enter into an agreement with the Company to enable them to acquire partnership shares from gross monthly salary up to a maximum value, currently set by the Finance Act 2000 as £125 in any month or 10 per cent. of the employee’s salary or £1,500 in any year, whichever is less. The Company has set a minimum monthly deduction of £10 in any month. Deductions are accumulated for a period not exceeding 12 months. Ordinary Shares will then be acquired on behalf of employees within 30 days of the end of this accumulation period. The price at which such shares are acquired will be the lower of the market value of the shares at the beginning of the accumulation period or the date when they are acquired.

The money deducted from an employee's salary is held by the Trustee (as defined below) and applied in purchasing partnership shares. If such money is applied in acquiring partnership shares but there remains any surplus then the Trustee may (with the employee's agreement) carry this forward to the next accumulation period. In any other case such surplus monies will be paid over to the employee subject to all necessary deductions of income tax and employee's national insurance contributions.

An employee may stop deductions or withdraw from the partnership share agreement at any time. An employee who has stopped deductions may subsequently re-start deductions but cannot make up any deductions that have been missed and can only re-start deductions once in any accumulation period. The Trustee will hold the partnership shares until the employee directs otherwise or the employee ceases to be in employment within the Group.

(e) Matching shares

The Company can (at its election) give an employee up to two free matching shares for each partnership share acquired by the employee. The award of matching shares cannot be subject to performance targets.

(f) Dividend shares

The remuneration committee can require employees to re-invest dividends paid on plan shares in further Ordinary Shares, up to a maximum amount which is currently set by the Finance Act 2000 at £1,500 per tax year. If the cash dividend exceeds this limit then the balance is paid to the relevant employee. Any amount remaining after Ordinary Shares have been acquired but the limit not exceeded may be retained by the Trustee and added to the next cash dividend to be applied when purchasing Ordinary Shares, but must be paid over to the relevant employee if it is not re-invested within three years after the dividend was paid or if during that period the employee ceases to be employed by the Group.

(g) Timing

Participation in the Share Incentive Plan may only occur during the six-week period immediately following Admission or the announcement of the Company's interim or final financial results for any period. No participation will occur more than ten years after Admission.

(h) Holding periods

Free and/or matching shares must be held in trust for a period of not less than three years and not more than five years from the date on which shares are allocated to employees. This holding period may be determined from time to time by the remuneration committee but must not be the same in relation to awards of free and/or matching shares made at the same time. Dividend shares must be held in trust for not less than three years.

(i) Cessation of employment, forfeiture of shares and transfers

Free shares and/or matching shares shall be forfeit if an employee ceases to be employed within the Group (other than by reason of certain circumstances such as injury, disability or redundancy or reaching the retirement age specified for the purpose of the Share Incentive Plan only of age 65) within the period of three years from the date on which free and/or matching shares were awarded.

Employees can withdraw their partnership shares from the Share Incentive Plan at any time. However, matching shares will be forfeit if the corresponding partnership shares are withdrawn within a period of three years of the date on which such partnership shares were awarded.

Awards are not transferable except on death, when shares may be transferred to the deceased employee's personal representatives.

(j) Effect on pensions

Awards will not be pensionable.

(k) Funding

If existing Ordinary Shares are acquired as partnership shares, participating companies may be required to fund the acquisition cost to the extent that salary deductions are insufficient to do so. This may occur where the market value of the Ordinary Shares has increased over an

accumulation period because in these circumstances an award holder will only be required to purchase shares at a price equal to their market value as at the commencement of the accumulation period.

(l) Scheme limitations

The aggregate number of Ordinary Shares issued or liable to be issued in respect of awards under the Share Incentive Plan when aggregated with the number of Ordinary Shares issued or issuable in respect of awards under any other employees' share scheme and options granted under the Company Share Option Plan and any other share option scheme adopted by the Company shall not exceed 10 per cent. of the ordinary share capital of the Company in issue.

(m) Amendments to plan

The Remuneration Committee will have authority to amend the Share Incentive Plan, provided that no amendment for the benefit of participants will be made without the previous sanction of the Company in general meeting (except that this restriction does not apply to minor amendments to benefit the administration of the Share Incentive Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the participants or any member of the Group). Amendments are also subject to the prior approval of the Inland Revenue.

(n) The Trustee

The Share Incentive Plan will be operated by way of a United Kingdom resident trust.

By the trust deed which forms part of the Share Incentive Plan, the Company shall appoint a trustee (the "Trustee") who will be required:

- (i) to acquire any free and matching shares and allocate such shares to eligible employees in accordance with the rules of the plan; and
- (ii) to apply partnership share money in acquiring partnership shares on behalf of eligible employees who enter into a partnership share agreement.

The Trustee is normally prohibited from disposing of any free or matching shares or dividend shares during the relevant holding period (whether by transfer to the employee or otherwise). This obligation is subject to qualifications, including those which relate to an employee's power to give certain directions to the Trustee.

5. Directors' and Other Interests

5.1. Interests in Ordinary Shares

The interests of the Directors in the Ordinary Shares, all of which are beneficial, are expected to be as follows immediately following Admission:

| <i>Directors</i> | <i>No of ordinary shares</i> | <i>% of enlarged issued share capital*</i> |
|------------------|--------------------------------------|--|
| Victor Thompson | 7,237,000 | 27.73% |
| David Ulph | 4,256,500 | 16.31% |
| Robert Wilkinson | 200,681 | 0.77% |
| Gillian Cotter | 475,253 | 1.82% |
| Nigel Moorhouse | 220,350 | 0.84% |
| Michael Holbrook | 13,500 | 0.05% |

* Assuming full subscription of the Ordinary Shares available for employees of the Group and persons connected with them.

5.2. Orderly Marketing Deed

The Directors, together with twenty other employees and Nicolas Thompson, (together the **Covenantors**), have entered into an Orderly Marketing Deed dated 25 September 2002 with Numis and the Company. In consideration of and conditional upon Numis procuring Admission and arranging the Placing, each of the Covenantors undertakes to the Company and Numis that he will not at any time prior to the date which is the second anniversary of the date of Admission dispose of, or agree to dispose of, directly or indirectly, any Ordinary Shares he owns at the date of Admission or any interest in any of the Ordinary Shares in which he has a beneficial interest at the date of

Admission and shall not after Admission until the third anniversary date of Admission make such disposal as referred to above otherwise than through the Company's broker. These restrictions do not apply in the following circumstances:

- (a) the death of the Covenantor;
- (b) an intervening court order;
- (c) if the undertaking would breach any applicable law;
- (d) the acceptance of a general offer for the entire issued share capital of the Company made in accordance with the City Code on Takeovers and Mergers or the giving of an irrevocable undertaking to accept such an offer in either case which has become unconditional as to acceptances or which has been recommended for acceptance by the Board;
- (e) transfer to an immediate family member of the Covenantor or trustees for the Covenantor or that family member where that family member or those trustees agree by deed in a form acceptable to Numis to be bound by the same restrictions for the unexpired period up to the second anniversary of the Admission Date;
- (f) any transfer the consideration for which will be used solely to meet any liability for a claim brought by Numis against that Covenantor under the Placing Agreement referred to in paragraph 9.8 below;
- (g) in a case of financial hardship, provided the prior written consent of Numis has been obtained;
- (h) any transfer by a Convenantor or a person referred to in (e) above to which Numis has given its prior written consent, provided the transferee agrees by deed in a form acceptable to Numis to be bound by the same restrictions for the unexpired period up to the second anniversary of the Admission Date; and
- (i) a transfer in connection with the Placing to which Numis has consented in writing.

A number of the Covenantors have mortgaged or charged their shares. In the event that such shares are disposed of pursuant to the mortgage or charge (as applicable) the restrictions outlined above will not apply.

- 5.3. The Company is aware as at the date of this document, that in addition to the interests of the Directors mentioned in Paragraph 5.1 above the following persons will, immediately following Admission, be interested directly or indirectly in three per cent or more of the Company's enlarged issued share capital:

| <i>Name</i> | <i>No of ordinary shares</i> | <i>% of enlarged issued share capital*</i> |
|--------------------------|--------------------------------------|--|
| Jupiter Asset Management | 1,625,000 | 6.23% |
| Insight Investment | 1,291,667 | 4.95% |
| Paul Dudley | 1,060,578 | 4.06% |
| Karen Watson | 1,060,578 | 4.06% |
| Exeter Asset Management | 1,041,667 | 3.99% |
| Frank Murphy | 1,017,459 | 3.90% |

* Assuming full subscription of the Ordinary Shares available for employees of the Group and persons connected with them.

- 5.4. Victor Thompson's son, Nicolas Thompson, has a beneficial interest in 400,000 Ordinary Shares.
- 5.5. Save as set out in paragraphs 5.1 and 5.4 above, following Admission no Director will, and no person connected with a Director is expected to, have any interest in the share capital of the Company.
- 5.6. The Directors are not aware of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

6. Directors' Service Contracts and Letters of Appointment

- 6.1. Pursuant to a service agreement dated 2 August 2002 between the Company (1) and Victor Herbert Thompson (2), Mr Thompson has agreed to act as Chief Executive Officer of the Company and Chairman of the Company for so long as is required by the Company, and director of other companies in the Group as agreed from time to time. The agreement commenced on 2 August 2002, although the employment is part of a continuous period of employment which began on 1 May 1968. The agreement has no fixed term, but is terminable by 12 months' written notice from either party.

Mr Thompson is entitled to an annual salary of £150,000 and to participate in the Company's pension and life assurance schemes. The agreement contains restrictive covenants, confidentiality and intellectual property provisions.

- 6.2. Pursuant to a service agreement dated 8 August 2002 between the Company (1) and David Anthony Ulph (2), Mr Ulph has agreed to act as Deputy Chairman of THB Limited. This agreement forms part of a continuous period of employment with the Company commencing on 1 January 1982. The agreement is terminable by either party serving on the other six months' written notice. Mr Ulph is entitled to an annual salary of £150,000 and to participate in the Company's pension and life assurance schemes. The agreement contains restrictive covenants and confidentiality undertakings given by Mr Ulph to protect the goodwill and business of the Group.
- 6.3. Pursuant to a service agreement dated 4 September 2002 between the Company (1) and Robert Stephen Wilkinson (2), Mr Wilkinson has agreed to act as a Director of the Company. The agreement forms part of a continuous period of employment with the Company commencing on 1 May 2002. The agreement is terminable by either party serving on the other six months' written notice. Mr Wilkinson is entitled to an annual salary of £110,000 and to participate in the Company's pension and life assurance schemes. The agreement contains restrictive covenants and confidentiality undertakings given by Mr Wilkinson to protect the goodwill and business of the Group.
- 6.4. Pursuant to a service agreement dated 8 August 2002 between the Company (1) and Gillian Mary Cotter (2), Mrs Cotter has agreed to act as Managing Director of THB Limited. This agreement forms part of a continuous period of employment with the Company commencing on 3 July 1979. The agreement is terminable by either party serving on the other six months' written notice. Mrs Cotter is entitled to an annual salary of £140,000 and to participate in the Company's pension and life assurance schemes. The agreement contains restrictive covenants and confidentiality undertakings given by Mrs Cotter to protect the goodwill and business of the Group.
- 6.5. Pursuant to a letter addressed to Nigel Moorhouse by the Company dated 5 September 2002 Mr Moorhouse has agreed to act as Non-Executive Director of the Company and THB Limited. The agreement is to continue for one year and is then terminable by either party serving on the other three months' written notice. The agreement may also be terminated in accordance with the Articles of Association of the Company and THB Limited. Mr Moorhouse is paid an annual fee of £20,000. The agreement contains confidentiality provisions and provides that Mr Moorhouse will be reimbursed for costs incurred in taking outside professional advice on the Company's and THB Limited's affairs. Pursuant to a consultancy agreement date 5 September 2002 between the Company (1) and Nigel Moorhouse (2), Mr Moorhouse has agreed to provide consultancy services to the Company and the Group. The agreement is terminable on either party serving on the other three months' written notice. Mr Moorhouse is paid an annual fee of £20,000 for 3½ working days per month. The agreement contains confidentiality and intellectual property provisions.
- 6.6. Pursuant to a letter addressed to Michael Holbrook by the Company dated 5 September 2002 Mr Holbrook has agreed to act as Non-Executive Director of the Company. The agreement is to continue until 31 December 2002 and is then terminable by either party serving on the other three months' written notice. The agreement may also be terminated in accordance within the Articles of Association of the Company. Mr Holbrook is paid an annual fee of £20,000 for 15½ days per annum. Mr Holbrook is entitled to be paid for any additional time spent by carrying out his duties at a rate *pro rata* to the annual fee. The agreement contains confidentiality provisions and provides that Mr Holbrook will be reimbursed for costs incurred in taking outside professional advice on the Company's affairs.
- 6.7. Save as disclosed in this paragraph 6, there are no existing or proposed service agreements between any of the Directors and the Company or any of its subsidiaries with an unexpired term exceeding 12 months or which cannot within the next 12 months be terminated by the Company without the payment of compensation (other than statutory compensation).
- 6.8. In the financial year to 30 April 2002, the aggregate remuneration and the value of benefits-in-kind payable to the Directors was £590,210 (including pension contributions). In the financial year to 30 April 2003 it is estimated that the aggregate remuneration and the value of benefits-in-kind payable to the Directors will be £739,413 (including pension contributions).

7. Additional Information on the Directors

7.1. The Directors currently hold, and in the past five years have held, the following directorships (other than of the Company):

(a) Victor Herbert Thompson

Current directorships

| <i>Company</i> | <i>Registered number</i> | <i>Date of appointment</i> |
|--|--------------------------|----------------------------|
| Plebasilo Limited | 01078436 | on or before 18/03/91 |
| Thompson Heath & Bond Limited | 00929224 | on or before 18/09/91 |
| Thompson Group Services Limited | 01195755 | on or before 18/03/92 |
| Marshall Ewart & Graham Limited | SC118676 | on or before 01/10/92 |
| Thompson Heath & Bond (Northern) Limited | 02890377 | 24/01/94 |
| Temseel Holdings Limited | 01712592 | 09/07/97 |
| White & Wilson Insurance Brokers Limited | 02846504 | 06/11/00 |
| T. L. Clowes & Company Limited | 01304221 | 20/12/01 |
| T. L. Clowes (Warwick) Limited | 01970491 | 20/12/01 |
| T. L. Clowes Financial Services Limited | 02292688 | 20/12/01 |
| THB UK Limited | 03244626 | 20/12/01 |

Directorships of companies dissolved within the past five years

| <i>Company</i> | <i>Registered number</i> | <i>Date of dissolution</i> |
|--|--------------------------|----------------------------|
| Alliance Travel Limited | 01892317 | 12/01/99 |
| Hamilton MacIntyre Properties Limited | SC059510 | 02/03/99 |
| Alliance Finance & Securities Limited | 01892319 | 23/03/99 |
| Alliance Insurance Brokers Limited | 02711723 | 23/03/99 |
| Alliance Direct Limited | 02912883 | 23/03/99 |
| Auto Direct Insurance Services Limited | 01943821 | 21/12/99 |
| Milngavie & Bearsden Insurance Consultants Limited | SC054854 | 16/07/02 |
| Downes Marshall Limited | SC063109 | 16/07/02 |

(b) David Anthony Ulph

Current directorships

| <i>Company</i> | <i>Registered number</i> | <i>Date of appointment</i> |
|-------------------------------|--------------------------|----------------------------|
| Thompson Heath & Bond Limited | 00929224 | on or before 18/09/91 |

Resigned directorships

| <i>Company</i> | <i>Registered number</i> | <i>Date of resignation</i> |
|--|--------------------------|----------------------------|
| A. D. Davis & Company (a company incorporated in New Hampshire, USA) | — | 20/12/99 |

(c) Robert Stephen Wilkinson

Resigned directorships

| <i>Company</i> | <i>Registered number</i> | <i>Date of resignation</i> |
|---|--------------------------|----------------------------|
| Niagara Therapy (UK) Limited | 00857402 | 30/07/99 |
| Niagara Franchising Limited | 00947073 | 30/07/99 |
| Direct Consumer Finance Limited | 01046793 | 30/07/99 |
| Niagara Therapy (UK) Pension Trustees Limited | 01389790 | 30/07/99 |
| Niagara Manufacturing Limited | 01562213 | 30/07/99 |
| Niagara Healthcare Plc | 01563257 | 30/07/99 |
| Niagara Exports Limited | 01615638 | 30/07/99 |
| Adjustamatic Beds Limited | 01617452 | 30/07/99 |
| Markcare Limited | 01669386 | 30/07/99 |
| Niagara Services Limited | 01931638 | 30/07/99 |
| Europaedic Adjustable Beds Limited | 02098660 | 30/07/99 |
| Physiocare Limited | 02098665 | 30/07/99 |
| Adjustable Bed Advice Service Limited | 02879306 | 30/07/99 |
| Penshurst Press London Limited | 03145849 | 30/07/99 |
| Veos UK Limited | 03607303 | 31/07/02 |
| Equestria Net Plc | 03878765 | 14/06/00 |
| The Web Sharesop Limited | 03704802 | 11/01/02 |
| Web Sharesop (Holdings) plc | 03981468 | 11/01/02 |
| The New Issue Investment Company Limited | 03933442 | 11/01/02 |
| Veos plc | 03833193 | 31/07/02 |
| 2Enable Limited | 03856674 | 31/07/02 |

(d) Gillian Mary Cotter (née Lander)

Current directorships

| <i>Company</i> | <i>Registered number</i> | <i>Date of appointment</i> |
|--|--------------------------|----------------------------|
| Thompson Heath & Bond Limited | 00929224 | on or before 04/12/92 |
| Plebasilo Limited | 01078436 | 24/04/96 |
| Thompson Heath & Bond (Northern) Limited | 02890377 | 07/08/98 |
| Marshall Ewart & Graham Limited | SC118676 | 14/08/98 |
| Thompson Group Services Limited | 01195755 | 21/03/00 |
| White & Wilson Insurance Brokers Limited | 02846504 | 06/11/00 |
| T. L. Clowes & Company Limited | 01304221 | 20/12/01 |
| T. L. Clowes (Warwick) Limited | 01970491 | 20/12/01 |
| T. L. Clowes Financial Services Limited | 02292688 | 20/12/01 |
| THB UK Limited | 03244626 | 20/12/01 |

Directorships of companies dissolved within the past five years

| <i>Company</i> | <i>Registered number</i> | <i>Date of dissolution</i> |
|--|--------------------------|----------------------------|
| Hamilton MacIntyre Properties Limited | SC059510 | 02/03/99 |
| Milngavie & Bearsden Insurance Consultants Limited | SC054854 | 16/07/02 |
| Downes Marshall Limited | SC063109 | 16/07/02 |

(e) Nigel James Moorhouse

Current directorships

| <i>Company</i> | <i>Registered number</i> | <i>Date of appointment</i> |
|-------------------------------------|--------------------------|----------------------------|
| Roman Lodge Ventures Limited | 02206515 | 29/09/89 |
| Roman Lodge Finance Limited | 0161618 | 29/09/89 |
| Roman Lodge Holdings Limited | 03286401 | 20/12/96 |
| Temseel Holdings Limited | 01712592 | 15/10/97 |
| Thompson Heath & Bond Limited | 00929224 | 30/11/98 |
| The Caring Clothing Company Limited | 04062045 | 24/08/00 |
| Broadstream Technology Limited | 04278488 | 03/09/01 |

Directorships of companies dissolved within the past five years

| <i>Company</i> | <i>Registered number</i> | <i>Date of dissolution</i> |
|----------------------------|--------------------------|----------------------------|
| Nyegreen Marketing Limited | 04119657 | 02/07/02 |

(f) Michael Frederick Holbrook

Resigned directorships

| <i>Company</i> | <i>Registered number</i> | <i>Date of resignation</i> |
|----------------|--------------------------|----------------------------|
| THB UK Limited | 03244626 | 04/04/02 |

7.2. Save as disclosed in paragraph 7.3 below, no Director has:

- (a) any unspent convictions in relation to indictable offences;
- (b) been declared bankrupt or entered into an individual voluntary arrangement;
- (c) been a director of a company in receivership, compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement or which has entered into a composition or arrangement with its creditors generally or of any class of its creditors or been a director of such a company in the twelve month period preceding such an event;
- (d) been a partner of a partnership in compulsory liquidation or administration or which has entered into a partnership voluntary arrangement or been a partner of such a partnership in the twelve month period preceding such an event;
- (e) had any asset placed in receivership or any asset of a partnership in which he was a partner placed in receivership whilst he was a partner in that partnership or within twelve months after he ceased to be a partner in that partnership;
- (f) been the subject of public criticism by any statutory or regulatory authority (including recognised professional bodies),

nor has any Director ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7.3. THB Limited acted as a guaranteeing broker for an unrelated non-Lloyd's broker, Alliance Insurance Centres Limited, subsequently renamed Temseel Holdings Limited ("Alliance"). In June 1997 Alliance informed THB that accounting deficiencies had been discovered which revealed that it had a potential net asset deficiency of £12m, resulting in an exposure of around £4.5m in respect of guarantees given by THB Limited to various Lloyd's syndicates on business introduced by Alliance. As the largest creditor, THB proposed a rescue package which involved a loan by a (then) related company, Thompson Group Services Limited ("TGSL"), a cash injection by Alliance's major shareholder and agreement by insurance creditors (including THB Limited) to defer amounts due from Alliance. The majority of Alliance's directors resigned and Victor Thompson and Nigel Moorhouse joined Alliance's board. In May 1998 Alliance's business excluding its property assets was sold to HSBC Insurance Brokers Limited ("HSBC"). In connection with the sale, insurance creditors of Alliance agreed to write off over £10m in debts due to them but continued to receive monthly payments from HSBC in respect of rights assigned to it by Alliance. Nigel Moorhouse was retained by Alliance to manage the disposal of its property assets and other wind down issues. At the time of the sale Victor Thompson was appointed as chairman of Alliance and a controlling interest of 70%

was acquired by TGSL. Both this holding and an existing holding of 30% by AXA were agreed to be held on trust for Alliance's insurance creditors. Victor Thompson and Nigel Moorhouse remain directors of Alliance.

8. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group will from the time of Admission be sufficient for its present requirements, that is for at least the next 12 months.

9. Material Contracts

Members of the Group have entered into the following contracts other than in the ordinary course of business which are or may be material in the context of the Group:

9.1. Business Loan Agreement

On 31 March 2000 Lloyds TSB made available to the Company a facility of £2,000,000 for the purpose of consolidating existing commitments (the "Business Loan Agreement"). By a side letter to the Acquisition Finance Loan dated 29 April 2002 Lloyds TSB agreed to alter the repayment instalments under the Business Loan Agreement from quarterly payments of £122,320 commencing on 30 June 2000 to quarterly instalments of £37,500 commencing on 30 June 2002. Quarterly interest is added to the loan on 10 March, June, September and December at Lloyds TSB's base rate plus 1.75 per cent. Default interest is payable at a rate that is 3 per cent per annum higher than the normal interest rate. Final repayment is due on 29 April 2010.

As security for the loan the Company entered into an unlimited debenture, gave a first legal charge over Thompson House, 20-22 Curtain Road, London, EC2A 3NF and both the Company and THB Limited gave unlimited cross guarantees.

The side letter referred to above also provides that if there is any inconsistency between the terms of the Business Loan and the Acquisition Finance Loan, the terms of the latter prevail.

9.2. Acquisition of MEG, Northern and DML

Prior to 31 October 2001 the Company owned 20 per cent of the shares in Thompson Group Services Limited and Victor Thompson owned the remaining 80 per cent. Thompson Group Services Limited owned the beneficial interest in the entire issued share capital of MEG, Northern and DML. Victor Thompson held a nominee share in each of these companies. On 31 October 2001 the Company acquired the entire issued share capital of MEG, Northern and DML from Thompson Group Services Limited. The consideration paid for these acquisitions was £563,486. As part of the same transaction the Company sold its 20 per cent shareholding in Thompson Group Services Limited to Victor Thompson for £11,324 (equal to 20 per cent of the assets of Thompson Group Services Limited) thereby removing it as an associated company of the Group. In accordance with s320 of the Act the shareholders of the Company and of Thompson Group Services Limited approved the acquisition by the Company of MEG, Northern and DML. The shareholders of the Company also approved the acquisition by Victor Thompson of 20 per cent of the shares in Thompson Group Services Limited from the Company.

9.3. Acquisition of TLC – Warrantors' Agreement and Sellers' Agreement

The acquisition of TLCIS and its subsidiaries by the Company (the "TLC Acquisition") was effected by two share sale and purchase agreements made and completed on 20 December 2001. The first of these agreements (the "Warrantors' Agreement") was between the principal directors and shareholders of TLCIS, Karen Watson and Paul Dudley (the "Warrantors") (1) the Company (2) and Victor Thompson (3). The second share sale and purchase agreement (the "Sellers' Agreement") was entered into between the remaining shareholders of TLCIS (the "Sellers") (1) and the Company (2).

Under the two agreements Victor Thompson, the Warrantors and the Sellers were prohibited for a period of 12 months from completion from disposing of their shareholding in the Company other than as part of a general offer to acquire all the ordinary shares in the Company. Following Admission, the Warrantors and the Sellers are prohibited, for a period of two years, from disposing of any of their consideration shares, and may not dispose of more than 20 per cent of their consideration shares in any following 12 month period. Notwithstanding these restrictions Victor

Thompson is permitted to dispose of ownership of his shares in a number of specified circumstances, provided such disposal does not reduce his shareholding below 25.1% of the issued share capital of the Company.

The initial consideration was £5,494,505.50 under the Warrantors' Agreement, which was satisfied by the payment of £915,750.92 cash and the allotment of 1,060,578 Ordinary Shares to each Warrantor, and £550,915.71 under the Sellers' Agreement, which was satisfied by the payment of £123,076.90 in cash and the allotment of 247,748 Ordinary Shares.

The Warrantors' Agreement and the Sellers' Agreement both provide for payment of contingent consideration to the Warrantors and the Sellers. The contingent consideration is based on the turnover of TLC in the period between 1 April 2001 and 30 April 2002 and the aggregate balance of TLC's net debtors at completion being reduced below £500,000. The amount of the turnover consideration is calculated according to a formula up to a maximum amount of £1,373,626.38 payable under the Warrantors' Agreement and £92,307.69 payable under the Sellers' Agreement. The amount of the net debtor consideration payable is calculated according to a formula, increasing as the net debtor balance reduces. The maximum amount of the net debtor consideration is £457,875.46 payable under the Warrantors' Agreement and £30,769.23 payable under the Sellers' Agreement if the net debtor balance reduces to £50,000. On 30 May 2002 the Company paid the maximum amount of the turnover consideration and it expects to make an initial payment in respect of the net debtor consideration on 30 September 2002.

9.4. *Acquisition Finance*

Following the TLC Acquisition, on 29 April 2002 the Company arranged a loan facility (the "Acquisition Finance Loan") with Lloyds TSB Bank plc ("Lloyds TSB") of £3,000,000 for the following purposes:

- re-financing £1,500,000 of the initial consideration for the TLC Acquisition paid to the Sellers and the Warrantors;
- to finance a maximum of 75 per cent of the contingent consideration payable for the TLC Acquisition and/or to finance a shortfall which is the subject of a warranty claim;
- to discharge any costs and fees.

It is anticipated that the final tranche of the loan will be drawn down to pay the net debtor consideration on 30 September 2002.

Interest is payable on the Acquisition Finance Loan at Lloyds TSB's base rate plus 2 per cent reducing to base rate plus 1.75 per cent once the outstanding amount of the Acquisition Finance Loan reduces below £2,000,000. Overdue payments will attract default interest at Lloyds TSB's base rate plus 4 per cent reducing to 3.75 per cent once the outstanding amount of the Acquisition Finance Loan falls below £2,000,000. Repayment of the Acquisition Finance Loan is to be made quarterly in March, June, September and December over a period of five years starting 30 June 2002. The repayment amounts start at £75,000 and increase to a maximum repayment amount of £187,500.

The Acquisition Finance Loan becomes repayable on a change of control of the Company, sale of a substantial part of the Company or on flotation excluding flotation on AIM within 30 months of date of the Acquisition Finance Loan. A change of control means 50 per cent of the shares in the Company becoming beneficially owned by one person or a group of people acting together who were not shareholders of the date of the Acquisition Finance Loan.

Each of the Group Companies is prevented from declaring or paying any dividend or any arrears or making any other distribution of its income unless it satisfies a number of conditions: the dividend must be in respect of distributable profits earned in the accounting reference period immediately prior to payment, or in the case of an interim dividend the distributable profits recorded in the management accounts immediately prior to payment; there must be no event of default under the Acquisition Finance Loan; and two directors of the Company must certify that the declaration or payment of a dividend will not cause an event of default within six months of the date of the declaration or payment.

The Company has agreed that it will not and the other Group Companies will not dispose of their business and assets without the consent of Lloyds TSB. The Group Companies are also allowed to make disposals in the ordinary course of business of assets that are only subject to a floating charge and disposals on arms length terms of assets each worth no more than £100,000, provided the total of such disposals in an accounting reference period does not exceed £250,000.

The Group Companies are prohibited without Lloyds TSB's prior written consent from: making acquisitions in any accounting reference period the total value of which exceeds £1,000,000, incorporating or acquiring any new subsidiaries or acquiring or disposing of any share capital of a company.

9.5. *Composite Guarantee and Debenture Deed*

As security for the Acquisition Finance Loan on 29 April 2002 the Group Companies (excluding TLCFS and MEG) (the "Charging Companies") granted cross guarantees, indemnities and fixed and floating charges to Lloyds TSB by entering into a composite guarantee and debenture deed (the "Deed"). Under the Deed each of the Charging Companies guaranteed the performance and punctual payment by each of the other Charging Companies of any obligations and liabilities to Lloyds TSB under the Acquisition Finance Loan and the Deed (the "Secured Obligations").

The Charging Companies have charged in favour of Lloyds TSB all of their assets by way of legal mortgage, fixed and/or floating charges and/or assignment by way of security for the payment of the Secured Obligations. This includes all freehold and leasehold property. The Charging Companies have assigned their right to all present and future book debts and all other monies receivable by them including any rights to receive payments out of any Insurance Broking Account in respect of fees, commissions or brokerage. In compliance with the rules of the General Insurance Standards Council the Charging Companies' Insurance Broking Accounts were expressly excluded from the charges.

If any of the obligations under the Acquisition Finance Loan are outstanding Lloyds TSB is entitled to prevent any of the Charging Companies from making withdrawals without its consent from any of their accounts with the bank. However, a side letter has been issued by Lloyds TSB stating that its intention as at 29 April 2002 was to allow the Charging Companies to continue to operate their accounts in accordance with their current practice.

9.6. *Independent Insurance Company Limited ("Independent")*

PricewaterhouseCoopers (PwC) in their capacity as liquidators of Independent issued a letter on 5 June 2002 setting out the terms of a compromise offer to settle the liability of brokers in respect of time on risk premiums owed to Independent. The terms of the offer entitle brokers to retain their commission on the element of the premium earned prior to 17 June 2001 provided premiums are paid to Independent within the specified deadlines. In respect of the unearned element of the premium for the period from 17 June 2001, the broker must now pay Independent 50 per cent of the commission that would otherwise belong to the broker and the broker undertakes to remit the other 50 per cent to the policyholder at such time as the liquidators pay the first dividend to creditors. TLCC and TLCW have signed the agreement and calculated that payment of £546,000 will be required to be made to the liquidators, for which full provision has been made at 30 April 2002. The Directors have estimated that the maximum additional exposure under the agreement, for which provision has not been made, will not exceed £72,000.

The terms of the compromise offer reserve the right for Independent or its nominated representative to audit the calculations made by brokers and to require the payment of any amounts underpaid together with interest of 2 per cent above the base rate of Royal Bank of Scotland or to treat the compromise agreement at an end.

9.7. *Murray House*

On the 19 September 2002 the Company exchanged contracts to sell 12 Poverest Road Orpington to Pearce Signs Group Limited ("Pearce"). Completion is anticipated to take place on 8 November 2002. The notional value of the Property is £495,000. The sale is part of a transaction involving the purchase by the Company of Murray House, Orpington of which the current owner is Pearce. The purchase price is £1,733,000 which will be satisfied by the transfer of Poverest House and the payment of £1,238,000.

The Company will lease back part of Murray House to Pearce for a term of 10 years at an annual rent of £25,600. The Company will reimburse Pearce's costs of creating a divisional wall between the new demise and the remainder of the property. Pearce will not have the right to remain in occupation at the expiry of the term. Pearce have the right to break the lease on 12 months' notice at any time after the fifth anniversary of the term commencement.

9.8. *Placing Agreement*

A Placing Agreement dated 25 September 2002 between (1) the Company, (2) Numis, and (3) the Directors, under which Numis has agreed conditionally to use its reasonable endeavours to procure subscribers for up to 5,000,000 new Ordinary Shares at the Placing Price and to underwrite the Placing in respect of 4,750,000 of those shares.

Under the terms of the Placing Agreement Numis has also agreed in relation to the Company's application for Admission to perform those matters required to be carried out by a nominated adviser and to perform certain other services related thereto.

The Company and the Directors have given certain warranties and indemnities to Numis under the Placing Agreement. The Placing Agreement is conditional, *inter alia*, on Admission occurring on 1 October 2002, or such later date (not being later than 8 October 2002) as the Company and Numis may agree.

Under the Placing Agreement the Company has agreed to pay a corporate finance fee to Numis of £250,000 and a commission for procuring subscribers of three per cent of the proceeds of the Placing in respect of the Ordinary Shares which they have agreed to underwrite. The Company has also agreed to pay Numis' expenses. All of these amounts are exclusive of VAT (if any).

Under the Placing Agreement each Director covenants to pay the Company any tax liability of a member of the Group which would not have arisen but for certain circumstances relating to the Director in his personal capacity arising prior to Admission.

There is no limit on the liability of the Company under the warranties and indemnities in the Placing Agreement. The liability of each Director in respect of the Placing Agreement is limited to the extent specified in the agreement. As noted above the Directors are not restricted under the Orderly Marketing Deed from selling shares in order to satisfy amounts due in respect of claims made under the warranties and indemnities.

Numis is entitled at its absolute discretion to terminate its obligations under the Placing Agreement prior to Admission if Numis becomes aware that amongst other things: (i) there has been a material breach of warranty or other obligation of the Company or the Directors under the agreement or (ii) there is an adverse change or an adverse matter or an inaccuracy in this document which would require the Company to publish a supplementary admission document. Numis may also terminate its obligations under the Placing Agreement if before Admission there is: (i) an occurrence which in Numis' opinion materially and adversely affects the financial or trading position or prospects of THB, or (ii) a national or international crisis or change in the market which in Numis' opinion is materially adverse.

9.9. *Nominated Adviser and Broker Agreement*

A Nominated Adviser and Broker Agreement dated 25 September 2002 between (1) Numis (2) the Company and (3) the Directors, under which the Company has appointed Numis to act as its Nominated Adviser and Nominated Broker subsequent to Admission. For these services Numis will receive an annual fee of £25,000 plus costs and expenses (all exclusive of Value Added Tax) with the initial term of the agreement being two years (subject to certain rights of termination).

The Company and the Directors undertake, represent and warrant to Numis to comply with all their respective obligations under the agreement and the rules and regulations of the London Stock Exchange, any other regulatory authority and applicable law. The Company has given Numis an indemnity for any breach of this provision.

9.10 *Option Agreement*

An option agreement dated 25 September 2002 between (1) the Company and (2) Numis under which the Company has granted Numis an option, conditional upon the Admission becoming effective no later than 8.00 am on 1 October 2002 or such later date as agreed by the Company and Numis (being no later than 8.00 am on 8 October 2002), to subscribe at the Placing Price at any time prior to the fifth anniversary of the date of Admission for one per cent of the Company's issued share capital immediately after the Placing.

10. **Significant Investments**

10.1. *Heritage Underwriting Agency plc*

The Company has applied to purchase 2,500 A1 units in Heritage Underwriting Agency Plc ("Heritage") at a cost of £250,000 pursuant to a placing memorandum. Heritage is to establish a new Lloyd's syndicate, syndicate 1200, predominately writing property facultative insurance and reinsurance business. The syndicate is to be managed by Heritage Managing Agency Limited,

which is a wholly owned subsidiary of Heritage. Each A1 unit is to consist of one 10p A convertible redeemable preference share issued at £5 per share and £95 of paid loan stock. The Company will be entitled via dividend rights attaching to the A shares to the underwriting profits generated by syndicate 1200.

The Company will also receive interest on the value of its paid up loan stock at a rate equivalent to the interest earned on the monies invested by the corporate member. There is a two year minimum investment period being the 2002 and 2003 underwriting years of account. The first point at which the Company will be able to give notice to cancel is 30 June 2003 in respect of the 2004 underwriting year. Should the corporate member suffer an underwriting loss requiring the drawdown of funds at Lloyd's the Company will bear a proportionate share of the loss which will reduce the nominal value of its loan stock but cannot exceed the value of the loan stock and the preference shares.

11. Litigation

11.1. The Directors are not aware of any litigation or arbitration proceedings active, pending or threatened against, or being brought by, any member of the Group which is having or may have a significant effect on the Group's financial position.

12. Taxation

The following statements are intended only as a general guide to the United Kingdom taxation treatment of Shareholders, based on the law currently in force in the United Kingdom as well as the practice of HM Inland Revenue. The statements are not exhaustive and may not apply to certain Shareholders, such as dealers in securities. Unless otherwise stated they relate to persons who are for taxation purposes resident and ordinarily resident in the UK, who are the beneficial owners of Ordinary Shares held as an investment. Any person who is in any doubt as to his tax position, or who is subject to taxation in any jurisdiction other than the United Kingdom, should consult his professional advisers immediately.

12.1. Dividends

The Company is not required to withhold tax at source from its dividend payments.

Individual Shareholders should generally be entitled to a tax credit in respect of any dividend received equal to one-ninth of the dividend paid. Liability to income tax is calculated on the aggregate of the dividend and tax credit which, with certain other investment income, will be regarded as the top slice of the individual's income.

Individual Shareholders liable to tax at the lower rate (10 per cent) or basic rate (22 per cent) will have no further liability to income tax. The tax credit satisfies the whole of the lower or basic rate liability.

Individual Shareholders liable to tax at the higher rate (40 per cent) are subject to income tax at the rate of 32.5 per cent on the aggregate of the dividend and tax credit. After taking account of the tax credit, the Shareholder will be liable to income tax at the rate of 22.5 per cent of the aggregate of the dividend and tax credit, equal to 25 per cent of the dividend.

With limited exceptions (relating to Ordinary Shares held in individual savings accounts or personal equity plans) individual Shareholders cannot claim repayment of the tax credit.

A corporate Shareholder will not normally be liable to corporation tax on any dividend received. With limited exceptions (relating to charities) corporate Shareholders cannot claim repayment of the tax credit.

Tax exempt pension funds will not normally be liable to corporation tax or income tax on any dividend received and cannot claim repayment of the tax credit.

12.2. Chargeable gains

An individual or corporate Shareholder who sells or otherwise disposes of his Ordinary Shares may incur a liability to tax on any capital gain which is realised.

A Shareholder who is neither resident nor ordinarily resident for tax purposes in the United Kingdom who sells or otherwise disposes of his Ordinary Shares will not normally be liable for United Kingdom capital gains tax on the gain which is realised.

A liability to tax may arise in respect of a gain if such Shareholder (i) carries on a trade in the United Kingdom through a branch or agency and such Ordinary Shares are or have been used, held or acquired for the purposes of such trade, branch or agency or (ii) is an individual who, in certain circumstances, becomes resident for tax purposes in the United Kingdom subsequent to the sale of disposal of the Ordinary Shares. A local liability to tax may arise in the country in which the Shareholder is resident for tax purposes.

12.3. Stamp Duty and Stamp Duty Reserve Tax

The conveyance or transfer on sale of Ordinary Shares will be subject to stamp duty on the instrument of transfer, payable by the purchaser and generally at the rate of 50p per £100 or part thereof on the amount or value of the consideration. To the extent that stamp duty is not paid on such transfer a charge to stamp duty reserve tax payable by the purchaser at the rate of 0.5 per cent. will arise in relation to the agreement to transfer.

A transfer of Ordinary Shares effected on a paperless basis through CREST will normally be subject to stamp duty reserve tax payable by the purchaser at the rate of 0.5 per cent. on the amount or value of the consideration.

13. Consents and Related Matters

13.1. The Company has appointed Numis as its Nominated Adviser and Broker.

13.2. In connection with the Placing Numis, which is regulated by the FSA, is acting for the Company and for no one else and will not be responsible to any other person for providing the protections afforded to its customers nor for providing advice in relation to the Placing.

13.3. The registered address of Numis is Cheapside House, 138 Cheapside, London, EC2V 6LH.

13.4. Numis has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name and the references thereto in the form and context in which they appear.

13.5. Grant Thornton have given and have not withdrawn their written consent to the inclusion of their reports set out in Part Three of this document and the references thereto and to their name in the form and context in which they are included and have authorised the contents of their reports and their letter for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the POS Regulations.

14. Proceeds of the Placing

Assuming full subscription of the Ordinary Shares available for employees of the Group and persons connected with them, the gross proceeds of the Placing are estimated as being £6.0 million and after deduction of expenses the net proceeds are estimated as being £5.2 million. There is no minimum amount which must be raised by the Company.

15. General

15.1. Save as disclosed in this document, there are no significant investments in progress.

15.2. The Placing Price represents a premium of 110 pence over the nominal value of ten pence per Ordinary Share.

15.3. Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealing in the Ordinary Shares.

15.4. Otherwise than as disclosed in this document, there are no patents or other intellectual property rights, licences or particular contracts which may be of fundamental importance to the Company's business.

15.5. The accounting reference date of the Company is 30 April.

15.6. Other than as disclosed in paragraph 6.5 and 6.6 above and set out below in paragraph 15.7, no person (other than professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the date of this document, or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission any of the following:

- (a) fees totalling £10,000 or more;
- (b) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
- (c) any other benefit with a value of £10,000 or more at the date of Admission.

No loans or guarantees have been granted or provided to or for the benefit of the Directors by the Company.

15.7 Within the 12 months preceding the date of this document the following payments referred to in paragraph 15.6 above were made or contracted to be made by Group Companies:

- to Mazars Neville Russell £22,619 in audit fees;

- to Sporting Chances Limited £11,584 plus benefits (approximate cash equivalent of £5,125) for introducing broking business to the Group and a fee of £12,000 plus a 5 per cent. commission on business introduced to provide business introductory services over the 12 months following Admission;
- to IMAS Corporate Finance Limited fees of £162,126 for corporate finance advisory services;
- to Compliance & Audit Services Inc. fees of US\$35,000 for risk management services;
- to DLA fees of £32,144 for legal advice in connection with the arrangement of banking facilities for the Group;
- to Addleshaw Booth fees expected to amount to approximately £15,000 for property legal advice for the Group;
- to Haggie Financial fees of £15,000 for financial PR and advice in connection with Admission;
- to Mr Nigel Moorhouse director's fees of £70,000;
- to Mr Michael Holbrook director's fees of £43,500.

Other than Mr Moorhouse and Mr Holbrook, who are non-executive directors of the Company (and in the case of Mr Moorhouse, THB Limited), none of the above parties has any relationship with any Group Company.

16. Documents on Display

Copies of this document shall be made available free of charge to the public, and the following documents may be inspected at the offices of DJ Freeman, 43 Fetter Lane, London EC4A 1JU during usual business hours on weekdays (except Saturdays and public holidays) from the date of Admission and for a period of one month thereafter:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Accountants' Reports set out in Part Three of this document;
- (c) the rules of the Share Incentive Plans set out in paragraph 4 above;
- (d) the material contracts set out in paragraph 9 above;
- (e) the Heritage Underwriting Agency plc Placing Memorandum set out in paragraph 10 above; and
- (f) the consent letters referred to in paragraph 13 above.

25 September 2002

DEFINITIONS

| | |
|---|---|
| “Act” | the Companies Act 1985 (as amended) |
| “Admission” | the admission of the issued Ordinary Shares to trading on AIM becoming effective in accordance with the AIM rules |
| “the Board” | The board of directors of the Company |
| “Combined Code” | the principles of good governance and code of best practice prepared by the Committee on Corporate Governance, chaired by Sir Ronald Hampel and published in June 1998 |
| “the Company” | THB Group plc |
| “CREST” | the system operated by CRESTCo Limited in accordance with which securities may be held and transferred in uncertificated form |
| “CREST Regulations” | the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) |
| “Directors” | the directors of the Company whose names appear on page 4 of the document |
| “DML” | Downes Marshall Limited |
| “DMS” | Document Management System |
| “FSA” | the Financial Services Authority |
| “FSMA” | Financial Services and Markets Act 2000 |
| “GISC” | General Insurance Standards Council |
| “IBA” | Insurance Bank Accounts, the funds held on behalf of, and whilst in transit between, insured and insurer |
| “Lloyd’s” | the Society and Corporation of Lloyd’s, the Council of Lloyd’s or the Lloyd’s Insurance Market, as the context may require |
| “MEG” | Marshall Ewart & Graham Limited |
| “Northern” | Thompson Heath & Bond (Northern) Limited |
| “Numis” | Numis Securities Limited |
| “Official List” | the Official List of the UK Listing Authority |
| “Ordinary Shares” | ordinary shares of 10p each in the capital of the Company |
| “PIA” | Personal Investment Authority |
| “Placing” | the placing by Numis of the Placing Shares and as described in this document |
| “Placing Shares” | the new Ordinary Shares to be issued and to be sold in the Placing |
| “September 11th” | 11 September 2001 |
| “Statutes” | the Act, and every other enactment from time to time in force concerning companies and affecting the Company including any statutory re-enactment or modification of the Act and every other act or statutory instrument |
| “THB” or “the Group” or “Group Companies” | THB Group plc and its subsidiary undertakings |
| “THB Limited” | The subsidiary of the Company through which the Lloyd’s and London market insurance broking business of the Group is operated |
| “THB UK Limited” | The subsidiary of the Company through which the business of the company that does not relate to the Lloyd’s and London market insurance broking business of the Group is operated (formerly TL Clowes (Insurance Services) Limited) |
| “TLC” or “the TLC Group” | TLCIS and its subsidiary undertakings |
| “TLCC” | TL Clowes and Company Limited |
| “TLCFS” | TL Clowes Financial Services Limited |

| | |
|---------|--|
| “TLCIS” | TL Clowes (Insurance Services) Limited, the holding company of the TLC Group and renamed as THB UK Limited on 12 August 2002 |
| “TLCW” | TL Clowes (Warwick) Limited |

GLOSSARY

The following are generalised descriptions of various classes of insurance business and certain other terms. They are not definitions.

| | |
|---------------------------------|---|
| “aviation” | includes aviation combined policies, aviation legal liability and aviation physical loss or damage. The risks commonly relate to the insurance of private and small commercial aircraft |
| “binding authority” or “binder” | a contractual authority granted by an insurer (including a managing agent) on behalf of a syndicate to an agent to accept insurance business on behalf of the insurer within specified limits |
| “casualty” | cover for losses caused by injuries to persons and legal liability imposed upon the insured for such injury or for damage to property of others |
| “direct property” | includes cover for most non-marine perils arising from burglary, fire, flood and wind storms. It also includes a number of specialist classes of business, such as contractor’s all risks, engineering, jewellers block and livestock/bloodstock business. Insurance cover in relation to risks of loss or damage to property |
| “excess of loss” | a form of reinsurance whereby an insurer transfers its underlying insurance risk, over and above certain retained levels of exposure, to one or more reinsurers, subject (usually) to an upper limit |
| “fleet business” | the insurance of a number of motor vehicles (including private cars) operated by a particular insured |
| “liability” | insurance in respect of liability to third parties, most commonly for accidents resulting in bodily injury and damage to property |
| “primary business” | a generic term indicating that the placement of a risk is for the insured with an insurance company and is not any form of reinsurance |
| “personal lines business” | a generic term for insurance of risks typically associated with private individuals including household, travel and motor risks |
| “quota share” | a reinsurance arrangement under which a reinsurer accepts a fixed proportion of the risk or an agreed category of risks and shares in premiums and claims in that fixed proportion |
| “treaty business” | a generic term for reinsurance of risks placed on either a quota share, surplus or excess of loss basis |
| “war” | covers war, hijacking and similar risks in relation to marine and aviation risks, including civil war, rebellion, insurrection, revolution, usurped power, military or usurped power, civil commotion and martial law |

