



HYPERION INSURANCE GROUP LIMITED

REPORT & ACCOUNTS  
YEAR ENDED 30 SEPTEMBER 2008



THE QUEEN'S AWARDS  
FOR ENTERPRISE:  
INTERNATIONAL TRADE  
2007

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## HYPERION INSURANCE GROUP LIMITED

FINANCIAL STATEMENTS  
YEAR ENDED 30 SEPTEMBER 2008

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## DIRECTORS' REPORT

The directors submit their report and audited financial statements for Hyperion Insurance Group Limited ("the Company") together with the consolidated financial statements of the Group for the year ended 30 September 2008.

### PRINCIPAL ACTIVITY

The principal activity of the Company during the year was that of a holding and investment company for a group of insurance intermediaries. The Group's trading operations comprise wholesale and retail insurance broking, reinsurance broking and underwriting agencies.

### REVIEW OF THE BUSINESS

The Board is pleased to report that, against a difficult market background, the Group reported 22% growth in operating income to £48.0m (2007 - £39.2m). Operating profits, before exceptional expenses, remained steady at £6.0m (2007 - £6.5m).

The Group's broking operations reported revenues of £23.8m (2007 - £20.3m). This result reflects further growth overseas following the acquisition of broking operations in Dubai and Baltimore, together with the impact of further declines in premiums and brokerage, and the impact of the weak US dollar. Against this difficult background, the Group's broking operations reported profits of £0.6m (2007 - £2.7m) and reflects further initial start-up losses of Howden Property and Howden Leeds.

The larger of the Group's underwriting agency operations, DUAL, had a successful year. Net written premium increased by 13% to £65.3m and total revenues by 20% to £19.0m. This result reflects further underlying growth and profit commission arising from business written in prior years. Whilst all DUAL offices reported satisfactory results, particularly strong performances were achieved in Australia and Germany.

CFC, the Group's other underwriting agency operation, had a very successful year. Revenues increased by 65% to £4.4m, and profits doubled to £1.8m. As with DUAL, this result reflects profit commission on historic business.

Whilst the market background remains difficult, there is evidence that premium and commission rates are beginning to improve and overseas earnings are improving following the weakening of Sterling against a number of currencies. These place the Group in a strong position and its prospects for its continued growth are very positive. In addition, since the year end, the Group has integrated the US wholesale property and casualty team from Benfield Corporate Risks. This represents the Group's next big push into property and will allow it to establish an immediate and significant presence in the US wholesale market. Other opportunities are also being explored.

The Group raised an additional £31.4m of equity capital during the year from 3i Group Plc (full details of this capital raising are set out in note 22 of these financial statements) which was used to purchase shares held by minorities in subsidiaries and to strengthen the Group's capital base. The Group's capital base is now £34.7m. In addition the Group negotiated a £14.0m revolving credit facility with its bankers and had drawn £12.6m at the year end.

The Group's trading operations are geographically diverse, with different market positions and specialisms. A number of recently established businesses have yet to complete their initial development phase. The management focus is on revenue and profit against historic and budgeted performance levels, and in the DUAL business, there is close monitoring of the underlying underwriting performance. The Group also monitors revenue and profit per employee, staff costs as a proportion of revenue and overall brokerage as a percentage of premium.

### RESULTS AND DIVIDENDS

The profit of the Group for the year after taxation and minority interests amounted to £1.2m (2007 - £Nil). The profit of the Company was £2.5m (2007 - loss of £0.4m). Equity dividends of £Nil (2007 - £0.3m) were paid during the year. The subsidiary and associated undertakings included within the Group are disclosed in notes 15 and 16 to these financial statements.

### DIRECTORS

The directors who served during the year are listed below:

R J R Elias	Chairman
D P Howden	Chief Executive
E R M Fady	Finance Director
	Appointed 17 July 2008
R P Horton	Resigned 30 June 2008
L I Muñoz-Rojas Entrecanales	
S J Crowther	
R Davidoff	Resigned 31 March 2008
M N Pangborn	Resigned 17 December 2007
D A Whileman	Appointed 22 May 2008
T S Howden	
E H Woolf	
B P Marsh	

### DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Company has purchased insurance to cover directors and officers liability, as permitted by section 310(3) (a) of the Companies Act 1985 (as amended).

## DIRECTORS' REPORT (CONTINUED)

### CORPORATE GOVERNANCE

Hyperion is committed to maintaining high standards of corporate governance. We recognise that good governance helps the business to deliver our strategy and safeguard shareholders' long term interests. We believe that the Combined Code provides a useful guide and we apply these principles as appropriate to a group of our size.

In addition to the Chairman, the Board currently comprises four executive directors, and three non-executive directors who bring an appropriate balance of experience and knowledge, whereby the Board's decision making cannot be dominated by an individual or small group.

### AUDIT, REMUNERATION AND INVESTMENT COMMITTEES

The Board has delegated certain responsibilities to Committees that are described below, all of which have formally constituted terms of reference. It does not consider that it is of sufficient size to justify the establishment of a permanent Nominations Committee and all matters relating to Board appointments are therefore dealt with by the Board itself, or by a subcommittee specifically formed for that purpose.

#### Audit Committee

The Audit Committee comprises three non-executive directors and is chaired by Emile Woolf. The Committee meets at least four times a year. Meetings are attended, by invitation, by the Company's external auditors, the finance director and members of his staff, compliance officers and internal audit.

The Committee's role is to assist the Hyperion Board and the Boards of its subsidiaries in fulfilling their responsibilities with regards to accounting policies, internal control, financial reporting functions, risk assessment, compliance and related matters.

#### Remuneration Committee

The Remuneration Committee comprises four non-executive directors and is chaired by Tim Howden. The Committee meets at least four times a year. Meetings are attended by David Howden, the Chief Executive, and by the Group human resources manager. Other individuals and external advisers may be invited to attend for all or part of any meeting as and when appropriate.

The Committee's overall responsibility is to balance the various interests of shareholders, the Company and its employees, with the aim of ensuring that the Company, through its remuneration policy is able to attract, retain and motivate management and senior staff of appropriate experience and expertise.

#### Investment Committee

This Committee comprises two executive directors, one non-executive director and the Group's chief operating officer and is chaired by David Howden. The Committee is responsible for reviewing, approving and recommending major investment opportunities.

### INTERNAL CONTROL & RISK MANAGEMENT

The Board is responsible for maintaining a sound system of internal control and risk management, and for reviewing its effectiveness to safeguard shareholders investments and Group assets. There is no absolute means of preventing material loss and/or misstatement and the Group's internal controls reflect a balanced judgement, taking into account the direct costs of controls as well as the indirect costs of being over-bureaucratic, which provides reasonable assurance against material loss and/or misstatement.

The Group's internal controls are tested and key business risks are evaluated on a continuing basis, using Internal Audit, Compliance, and other relevant expertise. The Group maintains insurance cover against certain risks, including fidelity insurance.

### THE BOARD

The Board is responsible for maintaining effective control over significant strategy, financial, organisational, legal and regulatory matters. It meets at least six times a year. Management supply the Board with appropriate and timely information and the directors are free to seek any further information they consider necessary.

### PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES

The Group's operations specialise in business critical liability insurance such as professional indemnity insurance, directors and officers liability insurance and related products. The Group is thus exposed to the cyclical factors that affect the insurance market, and premiums and commissions. Whilst its underwriting agency operations are not directly responsible for claims, claims costs do affect the level of profit commission that the Group receives.

Further, the Group's international focus (which is one of its most important strengths) exposes its revenues to currency fluctuations, mainly Sterling/Dollar and Sterling/Euro. The Group has floating-rate borrowings in Sterling and Euros and is therefore also exposed to interest rate movements in those currencies. The Group has put in place appropriate hedging strategies to manage this risk.

The Group is ambitious and seeks to grow by means of acquisitions and organic growth. Such activities are inherently uncertain, particularly start-up operations where the timing and quantum of revenue build-up cannot be forecast with precision, and there is no developed book of renewals. The Group seeks to minimize such uncertainties with due diligence, warranties and the like.

## DIRECTORS' REPORT (CONTINUED)

In all its principal operations, the Group is also exposed to regulatory risk, and also an element of political risk in certain geographic regions, such as the Middle East and Latin America.

The Group uses a number of internal performance indicators to monitor and assess its business. In particular, renewal and attrition rates are carefully reviewed. In the main, however, the Group focuses on the profit before tax to revenue margin which it targets at least 20%.

### FINANCIAL RISK MANAGEMENT

The Group's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. Its policy is to finance working capital through retained earnings and bank borrowings at prevailing market interest rates. Acquisitions are funded through the combination of retained earnings, additional equity and appropriate long-term finance.

The Group's working capital comprises principally of insurance debtors, creditors and cash as described in note 1(l). It is the Group's policy not to fund any insurance transaction therefore minimising any credit exposure attaching to these insurance balances. Insurance balances are denominated in various currencies, predominantly Sterling, US Dollars and Euros. To minimise the foreign exchange exposure the Group will endeavour to match foreign currency assets with liabilities of similar maturities and vice versa. Where this is not possible, for material exposures, the Group will endeavour occasionally to purchase an appropriate financial instrument.

The Group's exposure to the price risk of financial instruments is therefore minimal. In addition, as the counterparties to all financial instruments are the Group's bankers, the exposure to credit and liquidity risks in respect of these instruments is relatively low.

### GOING CONCERN

The Group's business activities, internal controls and risk management structure, including details of its financial instruments and hedging activities, and its exposures to credit and liquidity risks, are set out above.

The Group has adequate financial resources together with its business being geographically diverse. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### EMPLOYMENT POLICIES

The Board recognises that the continuing success of the Group depends on its employees and its ability to continue to adopt policies created to attract, motivate and retain employees of the highest calibre.

The Group is an equal opportunities employer and bases decisions on individual ability regardless of race, religion, gender, age or disability. The Group's equal opportunities policy is designed to ensure that disabled persons are given the same consideration as others when they apply for jobs, and enjoy the same training, career development and prospects as other employees.

The Group seeks to achieve a common awareness among its employees of the financial and economic factors affecting the business by consultation and effective employee communication through a variety of media.

### PROVISION OF INFORMATION TO THE AUDITORS

As far as each of the directors are aware, at the time this report was approved, there is no relevant available information of which the auditors are unaware; and they have taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985 (as amended).

By order of the Board

**HG PALLOT**  
SECRETARY

22 January 2009

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HYPERION INSURANCE GROUP LIMITED

We have audited the group and parent company financial statements ('the financial statements') of Hyperion Insurance Group Limited for the year ended 30 September 2008 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 28. The financial statements have been prepared under the accounting policies set out therein.

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

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### BASIS OF AUDIT OPINION

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

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

### OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 September 2008 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**DELOITTE LLP**  
**CHARTERED ACCOUNTANTS AND**  
**REGISTERED AUDITORS**  
**LONDON, UNITED KINGDOM**

22 January 2009

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2008

	NOTES	BEFORE EXCEPTIONAL ITEMS £'000	EXCEPTIONAL ITEMS (NOTE 5) £'000	2008 TOTAL £'000	BEFORE EXCEPTIONAL ITEMS £'000	EXCEPTIONAL ITEMS (NOTE 5) £'000	2007 TOTAL £'000
<b>Turnover</b>	2	46,656	-	46,656	38,326	-	38,326
Fiduciary investment income		860	-	860	803	-	803
Other income		514	-	514	121	-	121
<b>Total operating income</b>		<b>48,030</b>	<b>-</b>	<b>48,030</b>	<b>39,250</b>	<b>-</b>	<b>39,250</b>
Administrative expenses		(42,048)	(1,800)	(43,848)	(32,797)	(1,466)	(34,263)
<b>Operating profit</b>	3	<b>5,982</b>	<b>(1,800)</b>	<b>4,182</b>	<b>6,453</b>	<b>(1,466)</b>	<b>4,987</b>
Share of operating (loss)/profit of associated undertakings	16	(98)	-	(98)	13	-	13
Profit on part disposal of subsidiary	9	914	-	914	-	-	-
(Loss)/profit on sale of tangible fixed assets		(2)	-	(2)	1	-	1
Non fiduciary investment income		290	-	290	203	-	203
Interest payable and similar charges	10	(1,051)	-	(1,051)	(802)	-	(802)
<b>Profit on ordinary activities before taxation</b>		<b>6,035</b>	<b>(1,800)</b>	<b>4,235</b>	<b>5,868</b>	<b>(1,466)</b>	<b>4,402</b>
Taxation	12	(2,762)	456	(2,306)	(2,579)	302	(2,277)
<b>Profit on ordinary activities after taxation</b>		<b>3,273</b>	<b>(1,344)</b>	<b>1,929</b>	<b>3,289</b>	<b>(1,164)</b>	<b>2,125</b>
Minority interests		(750)	-	(750)	(2,096)	-	(2,096)
<b>Profit for the financial year</b>		<b>2,523</b>	<b>(1,344)</b>	<b>1,179</b>	<b>1,193</b>	<b>(1,164)</b>	<b>29</b>

Turnover and operating profit for the year arose from continuing operations. The notes on pages 10 to 30 form part of these financial statements.

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 30 SEPTEMBER 2008

	2008 £'000	2007 £'000
Profit for the financial year	1,179	29
Currency translation differences on foreign currency net investments	327	(35)
<b>Total recognised gains and losses relating to the year</b>	<b>1,506</b>	<b>(6)</b>

All amounts relate to continuing operations. The notes on pages 10 to 30 form part of these financial statements.

## CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT 30 SEPTEMBER 2008

	NOTE	2008 GROUP £'000	2008 COMPANY £'000	2007 GROUP £'000	2007 COMPANY £'000
<b>Fixed assets</b>					
Intangible	13	30,612	-	6,338	-
Tangible	14	2,935	-	2,245	606
Investments in subsidiary undertakings	15	-	23,042	-	7,938
Investments in associated undertakings	16	16	-	125	-
		<b>33,563</b>	<b>23,042</b>	<b>8,708</b>	<b>8,544</b>
<b>Current assets</b>					
Debtors	17	94,470	30,815	85,263	7,390
Cash at bank and in hand	18	37,097	573	32,423	2,072
		<b>131,567</b>	<b>31,388</b>	<b>117,686</b>	<b>9,462</b>
<b>Creditors</b>					
Amounts falling due within one year	19	(114,096)	(5,774)	(105,576)	(2,645)
<b>Net current assets</b>		<b>17,471</b>	<b>25,614</b>	<b>12,110</b>	<b>6,817</b>
<b>Total assets less current liabilities</b>		<b>51,034</b>	<b>48,656</b>	<b>20,818</b>	<b>15,361</b>
<b>Creditors</b>					
Amounts falling due after more than one year	20	(13,781)	(12,603)	(7,671)	(6,733)
<b>Net assets</b>		<b>37,253</b>	<b>36,053</b>	<b>13,147</b>	<b>8,628</b>
<b>Capital and reserves</b>					
Called up share capital	22	407	407	212	212
Share premium account	23	34,330	34,330	9,288	9,288
Profit and loss account	23	1,802	1,316	716	(872)
<b>Shareholders' funds</b>		<b>36,539</b>	<b>36,053</b>	<b>10,216</b>	<b>8,628</b>
Minority interests	24	714	-	2,931	-
<b>Capital employed</b>		<b>37,253</b>	<b>36,053</b>	<b>13,147</b>	<b>8,628</b>

The notes on pages 10 to 30 form part of these financial statements.

The financial statements were signed as approved and authorised for issue by the Board on 22 January 2009.

Signed on behalf of the board of Directors.

D P Howden  
E R M Fady

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2008

	NOTE	2008 £'000	2007 £'000
Net cash inflow from operating activities	4	8,548	8,601
Returns on investments and servicing of finance	28(a)	(2,454)	(1,521)
Taxation		(2,470)	(2,777)
Capital expenditure and financial investment	28(a)	(1,379)	(870)
Net cash outflow from acquisitions and disposals	28(a)	(24,005)	(1,439)
Equity dividends paid	11	-	(261)
<b>Cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(21,760)</b>	<b>1,733</b>
Financing	28(a)	26,279	5,131
<b>Increase in cash</b>		<b>4,519</b>	<b>6,864</b>

All amounts relate to continuing operations.

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS FOR THE YEAR ENDED 30 SEPTEMBER 2008

	NOTE	2008 £'000	2007 £'000
Increase in cash in the year		4,519	6,864
Cash (outflow)/inflow from debt and lease financing	28(a)	(4,472)	393
<b>Movement in net funds in the year resulting from cash flows</b>		<b>47</b>	<b>7,257</b>
New finance leases		(178)	(107)
Premium paid on redemption of 'A' ordinary redeemable shares		(424)	-
Conversion of preferred shares to 'A' ordinary £0.01 shares		3,339	-
Amortisation of bank and loan arrangement costs		(322)	-
<b>Movement in net funds in the year</b>		<b>2,462</b>	<b>7,150</b>
Net funds at 1 October 2007/2006		24,314	17,164
<b>Net funds at 30 September 2008/2007</b>	28(b)	<b>26,776</b>	<b>24,314</b>

## I. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently throughout the year and preceding year in dealing with items that are considered material in relation to the financial statements.

### (A) BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

### (B) BASIS OF CONSOLIDATION

The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings for the year ended 30 September 2008 using the acquisition method. The results of acquired businesses are consolidated from the date on which effective control passes to the Group.

As permitted by section 230 of the Companies Act 1985 no separate profit and loss account has been provided for Hyperion Insurance Group Limited.

Associated undertakings are accounted for using the net equity method.

### (C) TURNOVER

Turnover consists principally of brokerage, commission and fees associated with the placement of insurance and reinsurance contracts, net of commissions payable to other directly involved parties. Revenues from brokerage, commissions and fees are recognised on the inception date of the risk. Any adjustments to commission arising from premium additions or reductions are recognised as and when they are notified by third parties.

Where contractual obligations exist for the performance of post placement activities, and the cost of these activities is not expected to be covered by future revenue, a relevant proportion of revenue received on placement is deferred and recognised over the period during which the activities are performed.

### (D) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Short leasehold improvements	Over the outstanding lease period
Furniture, fixtures and fittings	5 years to 10 years
Computer hardware	4 years to 5 years
Computer software	3 years
Motor Vehicles	4 years

### (E) GOODWILL

Goodwill, being the difference between the fair values of the net assets acquired and consideration paid, is capitalised and carried at its book value (original cost less cumulative amortisation), less any impairment subsequently incurred. Goodwill is amortised on a straight line basis over its expected useful life, with a maximum period of 20 years.

### (F) INVESTMENTS

Investments in subsidiary and associated undertakings are carried at cost less any provision for impairment.

### (G) OPERATING LEASES

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

### (H) PENSIONS

The Group operates a defined contribution scheme and the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### (I) FOREIGN CURRENCY

The results of the foreign subsidiaries have been translated using the average of monthly exchange rates. Assets and liabilities of foreign subsidiary undertakings are translated into sterling at the rates of exchange ruling on the balance sheet date. Exchange differences which arise from translation of the opening net investment in foreign subsidiary undertakings are taken to reserves. All other differences are taken to the profit and loss account.

Transactions denominated in foreign currencies are translated to sterling at the exchange rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the rates ruling at the balance sheet date. Exchange differences arising are dealt with through the profit and loss account.

### (J) TAXATION

Corporation tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxation is provided on material timing differences between the incidence of income and expenditure for taxation

## I. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

and accounts purposes using the full provision basis. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits. Deferred tax balances are not discounted. Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date, and are expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

### (K) DIVIDENDS

Equity dividends declared at the discretion of the Company are recognised in the period in which they are declared and approved by shareholders. Contractual entitlements to dividends on other shares are recognised on an accruals basis.

### (L) INSURANCE INTERMEDIARY ASSETS AND LIABILITIES

Insurance brokers usually act as agents in placing the insurable risks of their clients with insurers and as such, generally, are not liable as principals for the amounts arising from such transactions. Notwithstanding these legal relationships, debtors and creditors arising from insurance broking transactions are shown as assets and liabilities as set out in notes 17 – 19. This recognises that the insurance broker is entitled to retain the investment income on any cash flows arising from these transactions.

Debtors and creditors arising from a transaction between a client and insurers (e.g. a premium or a claim) are recorded simultaneously. Consequently, there is a high level of correlation between the totals reported in respect of insurance broking debtors and insurance broking creditors.

The position of the insurance broker as an agent means that generally the credit risk is borne by the principals. There can be circumstances where the insurance broker acquires credit risk – through statute, or through the act or omission of the insurance broker or one of the principals. There is much legal uncertainty surrounding the circumstances and the extent of such exposure and consequently they cannot be evaluated. Therefore, the total of insurance broking debtors appearing in the balance sheet is not an indication of credit risk.

It is normal practice for insurance brokers to settle accounts with other intermediaries, clients, insurers and market settlement bureaux on a net basis. Thus, large changes in both insurance broking debtors and creditors can result from comparatively small cash settlements. For this reason, the totals of insurance broking debtors give no indication of future cash flows.

The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Financial Reporting Standard No. 5 “Reporting the substance of transactions” requires that the offset of assets and liabilities should be recognised in the financial statements where, and only

where, the offset would survive the insolvency of the other party. Accordingly, only such offsets have been recognised in calculating insurance broking debtors and creditors.

### (M) EQUITY INSTRUMENTS

An equity instrument is a security that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, financial instruments are treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares, or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company’s own equity instruments.

### (N) SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company’s equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted on consolidation from equity attributable to the equity holders of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the equity holders of the Company.

### (O) SHARE-BASED PAYMENTS

The Group operates a number of share-based compensation schemes and applies the requirements of FRS 20 “Share-based payments” in respect of awards granted after 7 November 2002, until such time as they are fully vested.

The cost of employees’ services received in exchange for the grant of rights under these schemes is measured at the fair value of the equity instruments granted and is charged against profits over the vesting period. For cash settled schemes the fair value is re-assessed each year and any changes are recognised in the profit and loss account until the liability is settled.

### (P) FINANCE CHARGES

Finance charges are accounted for on an accruals basis in the profit and loss account and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Professional and other fees incurred directly in raising long-term debt finance are capitalised and amortised over the period of the instrument.

## 2. TURNOVER

Turnover is analysed by business unit as follows:

	2008 GROUP £'000	2007 GROUP £'000
Broking	23,848	20,318
Underwriting	22,808	18,008
	<b>46,656</b>	<b>38,326</b>

Turnover is analysed by geographical markets as follows:

United Kingdom	14,126	12,686
Northern Europe	6,093	5,494
Southern Europe	9,221	7,492
Israel	2,772	3,252
Australasia	5,170	3,141
North and South America	3,901	1,980
Latin America	2,379	2,707
Middle East	1,076	537
Other	1,918	1,037
	<b>46,656</b>	<b>38,326</b>

## 3. OPERATING PROFIT

The operating profit is stated after charging:

	2008 GROUP £'000	2007 GROUP £'000
Depreciation of tangible fixed assets owned by the Group	897	866
Amortisation of goodwill (note 13)	1,197	457
Goodwill impairment (note 13)	-	369
Auditors' remuneration (see below)	263	169
Operating lease rentals		
- Equipment	121	114
- Land and buildings	1,549	835
Profit on foreign currency exchange	(416)	(11)

The total remuneration payable by the Group, excluding VAT, to its principal auditors, Deloitte LLP (2007 – PKF (UK) LLP), in respect of the audit of these accounts is shown below, together with fees payable in respect of other work.

Audit services		
- Statutory audit of the Company	32	26
- Statutory audit of subsidiaries	218	98
- Audit-related regulatory and supplementary reporting	11	6
Taxation services	40	60
Professional fees associated with corporate finance advisory services	1,575	-
Professional fees associated with other advisory services	39	-
	<b>1,915</b>	<b>190</b>

In addition to the above amounts payable to the principal auditors, fees for audit services of £2,000 (2007 - £39,000) were payable to other firms. The total fees payable for audit services were therefore £252,000 (2007 - £169,000).

#### 4. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2008 GROUP £'000	2007 GROUP £'000
Operating profit	4,182	4,987
Depreciation	897	866
Amortisation of goodwill	1,197	457
Goodwill impairment	-	369
Share scheme incentives	95	-
Increase in debtors	(5,710)	(12,620)
Increase in creditors	7,887	14,542
<b>Net cash inflow from operating activities</b>	<b>8,548</b>	<b>8,601</b>

#### 5. EXCEPTIONAL COSTS

	2008 GROUP £'000	2007 GROUP £'000
Share scheme costs	498	-
Professional fees associated in raising new equity and debt finance	359	-
Restructuring and valuation costs	218	-
Terminating and replacing senior executives	147	406
Abortive acquisition costs	-	91
Other one-off staff incentives	578	600
Goodwill impairment	-	369
	<b>1,800</b>	<b>1,466</b>

Following the investment by 3i Group Plc disclosed in note 22 a number of one-off exceptional costs were incurred including the crystallisation of a number of share schemes, and other one-off staff incentives. During 2007 the one off staff incentives were payments made to senior employees reflecting the growth, over a number of years, of underlying businesses.

#### 6. DIRECTORS' EMOLUMENTS

	2008 GROUP £'000	2007 GROUP £'000
Directors' emoluments	1,331	1,258
Pension contributions	216	127
Compensation for loss of office	43	-
	<b>1,590</b>	<b>1,385</b>
<b>Highest paid director</b>		
Salary and benefits	328	313
Annual bonus	100	125
Pension contributions	147	72
	<b>575</b>	<b>510</b>

## 6. DIRECTORS' EMOLUMENTS (CONTINUED)

	Number	Number
Directors	10	10
Directors accruing benefits under personal pension schemes	4	4

## 7. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2008 COMPANY £'000	2007 COMPANY £'000	2008 GROUP £'000	2007 GROUP £'000
Wages and salaries	871	2,758	22,658	18,483
Social security costs	125	369	2,679	2,356
Share based incentives (note 8)	693	213	700	213
Pension contributions	112	141	1,220	1,099
	<b>1,801</b>	<b>3,481</b>	<b>27,257</b>	<b>22,151</b>

The average monthly number of employees, including directors, during the year was:

	2008 COMPANY £'000	2007 COMPANY £'000	2008 GROUP £'000	2007 GROUP £'000
Directors and senior management	3	7	81	69
Insurance professionals	-	-	178	149
Administration	7	19	124	104
	<b>10</b>	<b>26</b>	<b>383</b>	<b>322</b>

## 8. SHARE-BASED INCENTIVES

During the year the total cost recognised by the Group for share-based incentive schemes was £700,000 (2007: £213,000).

Last year the Group's principal share-based incentive scheme was the Hyperion Long-Term Incentive Plan made available to executive directors and other senior employees. In the Plan notional units were awarded and priced with reference to Group turnover and profit before taxation at grant date, but could not exceed 5% of the total notional value of the Group. The awards, normally vested three years after grant, and were subject to the growth in the value of the notional units, measured over a three year performance period. On 31 March 2008, as part of 3i Group plc investment in the Group, the Plan was closed and final bonuses were awarded resulting in a charge to profits of £605,000 (2007 - £213,000). Exceptional costs include £498,000 of this charge following the early settlement of the award.

The Company also operates an executive share option scheme (see note 22) to executive directors and other senior employees enabling them to purchase ordinary 'A' £0.01 shares in the Company. The price at which options are offered is based upon the estimated market value of the shares at the date of grant. Options may be exercised 3 years, and lapse 10 years, after the grant date. The charge for the year in respect of these options amounted to £88,000.

All share scheme incentives are at the absolute discretion of the Remuneration Committee, with no employee having the right to receive

## 8. SHARE-BASED INCENTIVES (CONTINUED)

such a grant. The fair values of share based incentives are determined using the Black-Scholes valuation model. The significant variables are:

- Share value at date of grant;
- Expected share price volatility of 30%;
- Dividend yield of 3.0%
- Risk free interest rate of 4.7%

The cost of other Group share based incentive schemes amounted to £7,000 for the year and were borne by Howden Iberia SA.

## 9. PROFIT ON PART DISPOSAL OF SUBSIDIARY

On 1 October 2006 certain executives of Howden Insurance Brokers Limited, a subsidiary undertaking, purchased 57,500 ordinary shares in this company (9.4%) for £20 per share of which £1 was called. The participation rights attaching to these ordinary shares were restricted by the uncalled element. The remaining £19 per share was called during the year raising £1,092,000 for Howden Insurance Brokers Limited and realising a profit for the Group in respect of this part disposal of £914,000.

## 10. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 GROUP £'000	2007 GROUP £'000
Bank loans and overdrafts	569	123
Preferred dividends	(97)	246
Interest on finance leases	16	5
Interest payable on other loans	193	378
Amortisation of bank and loan arrangement fees	322	-
Other interest	48	50
	<b>1,051</b>	<b>802</b>
Group	1,040	802
Associate	11	-
	<b>1,051</b>	<b>802</b>

On 31 March 2008 the preferred cumulative ordinary shares were converted to ordinary shares (see note 22). Following this conversion there was no longer an obligation on the Company to pay or accrue any preferred dividends resulting in a net credit of £97,000 for the year.

## 11. DIVIDENDS

	2008 GROUP £'000	2007 GROUP £'000
Ordinary dividends paid	-	261

## 12. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2008 GROUP £'000	2007 GROUP £'000
<b>(a) The tax charge comprises:</b>		
<b>Current tax</b>		
UK corporation tax on profits for the year	1,108	1,200
Adjustments in respect of previous years	(234)	(11)
Overseas tax	1,574	1,386
<b>Total current tax (note 12(b))</b>	<b>2,448</b>	<b>2,575</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(62)	(133)
Adjustments in respect of previous years	(80)	(165)
<b>Total deferred tax (note 21)</b>	<b>(142)</b>	<b>(298)</b>
<b>Tax on profit on ordinary activities</b>	<b>2,306</b>	<b>2,277</b>

**(b) Factors affecting the tax charge for the year:**

The tax assessed for the year is higher than the standard rate of corporation tax of 29% (2007 – 30%) due to the following reasons:

<b>Profit on ordinary activities before tax</b>	<b>4,235</b>	<b>4,402</b>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 29% (2007 – 30%)	1,228	1,321
<b>Effects of:</b>		
Expenses not deductible for taxation purposes	203	231
Preferred dividends not deductible for taxation purposes	(24)	65
(Decelerated)/accelerated capital allowances	(25)	37
Increase in general provisions	-	1
Overseas tax in excess of UK tax	134	77
Non taxable overseas income	(27)	(12)
Unrelieved overseas taxation	40	-
Amortisation and impairment of goodwill	348	247
Unrelieved losses	1,137	529
Profit on part disposal of subsidiary undertaking	(265)	-
Adjustments to tax charge in respect of previous years	(234)	(11)
Other timing differences	(67)	90
<b>Current tax charge for the year (note 12(a))</b>	<b>2,448</b>	<b>2,575</b>

## 13. INTANGIBLE FIXED ASSETS

GROUP	POSITIVE GOODWILL £'000	NEGATIVE GOODWILL £'000	TOTAL £'000
<b>Cost</b>			
At beginning of year	8,707	(55)	8,652
Additions	25,471	-	25,471
<b>At end of year</b>	<b>34,178</b>	<b>(55)</b>	<b>34,123</b>
<b>Amortisation/impairment</b>			
At beginning of year	2,362	(48)	2,314
Amortisation during the year	1,199	(2)	1,197
<b>At end of year</b>	<b>3,561</b>	<b>(50)</b>	<b>3,511</b>
<b>Net book value</b>			
<b>At 30 September 2008</b>	<b>30,617</b>	<b>(5)</b>	<b>30,612</b>
At 30 September 2007	6,345	(7)	6,338

The additions to goodwill arose from the acquisition of minority shareholdings in subsidiary undertakings and from the acquisition of Howden Insurance Brokers Inc (formerly International Program Managers Limited) ('HIB Inc') and Howden Insurance Brokers LLC (formerly European Insurance Brokers LLC) ('HIB LLC').

	HIB Inc (Baltimore) £'000	HIB LLC (Dubai) £'000	Purchase of minorities £'000	Total £'000
Tangible fixed assets	17	15	-	32
Current assets	-	310	-	310
Cash	1,147	307	-	1,454
Current liabilities	(988)	(462)	-	(1,450)
	176	170	-	346
Minority interests	-	(42)	2,088	2,046
<b>Net assets acquired</b>	<b>176</b>	<b>128</b>	<b>2,088</b>	<b>2,392</b>
Cash consideration	913	335	25,850	27,098
Additional capital following minorities exercising options	-	-	(889)	(889)
Legal and related costs	6	26	174	206
Deferred consideration	606	-	842	1,448
<b>Total consideration</b>	<b>1,525</b>	<b>361</b>	<b>25,977</b>	<b>27,863</b>
<b>Goodwill</b>	<b>1,349</b>	<b>233</b>	<b>23,889</b>	<b>25,471</b>

On 1 October 2007 the Group acquired the entire issued share capital of Howden Insurance Brokers Inc, an insurance broker incorporated in Baltimore USA. The total consideration amounted to £1,519,000 (US\$2,883,000). In addition legal and other related costs of £6,000 have been included in the total cost of acquisition of £1,525,000.

### 13. INTANGIBLE FIXED ASSETS (CONTINUED)

Howden Insurance Brokers Inc's turnover and profit after taxation for the year ended 30 September 2007 were £606,000 (US\$1,200,000) and £282,000 (US\$559,000) respectively. For the year ended 30 September 2008 turnover and profit after tax were £670,000 (US\$1,318,000) and £143,000 (US\$291,000) respectively.

On 1 January 2008 the Group acquired 75% of the issued share capital of Howden Insurance Brokers LLC, an insurance broker incorporated in Dubai. The total consideration amounted to £335,000 (AED 2,358,000). In addition legal and other related costs of £26,000 have been included in the total cost of acquisition of £361,000.

Howden Insurance Brokers LLC's turnover and profit after taxation for the year ended 31 December 2007 were £124,000 (AED 865,000) and £52,000 (AED 365,000) respectively. For the nine months ended 30 September 2008 turnover and profit after tax were £320,000 (AED 2,227,000) and £92,000 (AED 642,000) respectively.

The current year results of Howden Insurance Brokers Inc and Howden Insurance Brokers LLC have not been disclosed on the face of the profit and loss account as they are not considered material.

During the year shares held by minorities were purchased by the Group for £24,961,000, net of additional capital raised in subsidiaries of £889,000 following the exercise of share options. Included within this amount was deferred consideration of £842,000. The consideration was split between DUAL International Limited and certain of its subsidiaries (£17,677,000), Howden Insurance LLC (Miami) (£3,148,000), Global Services 1999 Limited (£2,427,000), Howden Insurance Brokers Limited (£1,760,000) and Howden Insurance Brokers AB (£791,000). In addition legal and other related costs of £174,000 have been included in the total cost of acquisition of £25,977,000.

### 14. TANGIBLE FIXED ASSETS

GROUP	SHORT LEASEHOLD IMPROVEMENTS £'000	MOTOR VEHICLES £'000	FIXTURES, FITTINGS & EQUIPMENT £'000	TOTAL £'000
<b>Cost</b>				
At beginning of year	1,540	70	2,942	4,552
Acquisition of subsidiary / reallocations	49	1	(18)	32
Additions	67	14	1,486	1,567
Disposals	-	-	(27)	(27)
<b>At end of year</b>	<b>1,656</b>	<b>85</b>	<b>4,383</b>	<b>6,124</b>
<b>Depreciation</b>				
At beginning of year	655	17	1,635	2,307
Provided for the year	317	20	560	897
Reallocations	37	-	(37)	-
Disposals	-	-	(15)	(15)
<b>At end of year</b>	<b>1,009</b>	<b>37</b>	<b>2,143</b>	<b>3,189</b>
<b>Net book value</b>				
<b>At 30 September 2008</b>	<b>647</b>	<b>48</b>	<b>2,240</b>	<b>2,935</b>
At 30 September 2007	885	53	1,307	2,245

Included in the cost of fixtures, fittings and equipment is £285,000 (2007 - £107,000) in respect of assets held under finance leases. The net book value of these assets was £221,000 (2007 - £82,000) and depreciation charged during the year was £39,000 (2007 - £25,000).

## 14. TANGIBLE FIXED ASSETS (CONTINUED)

COMPANY	SHORT LEASEHOLD IMPROVEMENTS £'000	FIXTURES, FITTINGS & EQUIPMENT £'000	TOTAL £'000
<b>Cost</b>			
At beginning of year	206	1,416	1,622
Transfers to Group companies	(206)	(1,416)	(1,622)
<b>At end of year</b>	-	-	-
<b>Depreciation</b>			
At beginning of year	63	953	1,016
Transfers to Group companies	(63)	(953)	(1,016)
<b>At end of year</b>	-	-	-
<b>Net book value</b>			
<b>At 30 September 2008</b>	-	-	-
At 30 September 2007	143	463	606

On 1 October 2007 the Company's fixed assets were transferred to HIG Services Limited, a fellow group undertaking. Included in the cost of fixtures, fittings and equipment is £Nil (2007 - £107,000) in respect of assets held under finance leases. The net book value of these assets was £Nil (2007 - £82,000) and depreciation charged during the year was £Nil (2007 - £25,000).

## 15. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

COMPANY	£'000
<b>Cost</b>	
At beginning of year	7,938
Additions	15,104
<b>At end of year</b>	<b>23,042</b>

In order to facilitate the acquisition of shares in minorities described in note 13 above, the Company's investments in DUAL International Limited and Howden Broking Group Limited were increased by £12,675,000 and £920,000 respectively. In addition £1,500,000 was invested in the Group's management services company, HIG Services Limited. Legal and other related costs in respect of these investments amounted to £9,000.

## 15. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS (CONTINUED)

The Group's principal operating subsidiaries are as follows:

NAME OF COMPANY	COUNTRY OF INCORPORATION	% INTEREST HELD BY THE COMPANY	% INTEREST HELD THROUGH SUBSIDIARIES	NATURE OF BUSINESS
DUAL International Limited	England	100.0		Intermediate holding company & insurance underwriting agency
CFC Underwriting Limited	England	59.5		Insurance underwriting agency
DUAL Ibérica Riesgos Profesionales S.A.	Spain		90.4	Insurance underwriting agency
DUAL Italia SpA	Italy		90.0	Insurance underwriting agency
DCR (Holdings) Limited	England		100.0	Intermediate holding company & insurance underwriting agency
DUAL Corporate Risks Limited	England		100.0	Insurance underwriting agency
DUAL Corporate Risks (PI) Limited	England		76.0	Insurance underwriting agency
DUAL Australia Pty Limited	Australia		99.1	Insurance underwriting agency
DUAL Deutschland GmbH	Germany		90.0	Insurance underwriting agency
Howden Broking Group Limited	England	100.0		Intermediate holding company & insurance broking
Howden Insurance Brokers Limited	England		100.0	Insurance broking
Howden Property Insurance Services Limited	England		100.0	Insurance broking
Global Services 1999 Limited	England		100.0	Intermediate holding company & insurance broking
Howden Insurance Brokers (2002) Limited	Israel		100.0	Insurance broking
Howden Insurance Brokers AB	Sweden		87.5	Insurance broking
Howden Insurance LLC	USA		100.0	Insurance broking & underwriting agency
Howden Insurance Brokers Inc	USA		100.0	Insurance broking
Howden Insurance Brokers LLC	Dubai		75.0	Insurance broking
Howden Iberia SA	Spain		100.0	Insurance broking
Howden Insurance Brokers Oy	Finland		92.6	Insurance broking
HIG Services Limited	England	100.0		Management services
J K Buckenham Limited	England	100.0		Reinsurance broking
Avant Garantías SL	Spain	100.0		Motor extended warranties & motor management services

All subsidiaries are included in the Group consolidated financial statements. CFC Underwriting Limited has issued share options to senior executives. If these were fully exercised the dilution to the Group's interests would be 1.5%.

Since the year end the Group has acquired the remaining minority interests in DUAL Ibérica Riesgos Profesionales S.A. and DUAL Australia Pty Limited.

## 16. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

The Group has a 26% participating interest in the ordinary share capital of Howden Insurance Brokers India Private Limited, an insurance broker operating in India. A summary of Howden Insurance Brokers India Private Limited's net assets at 30 September 2008 and results for the year then ended were as follows:

## 16. INVESTMENTS IN ASSOCIATED UNDERTAKINGS (CONTINUED)

Howden Insurance Brokers India Private Limited  
£'000

Turnover	1,608
Loss on ordinary activities before interest and tax	(375)
Interest	(42)
Taxation	-
<b>Loss on ordinary activities after tax</b>	<b>(417)</b>
Fixed assets	135
Current assets	1,029
Current liabilities	(475)
Long-term liabilities	(498)
Provisions for liabilities and charges	(129)
<b>Net assets</b>	<b>62</b>

The Group's share of net assets at 30 September 2008 and results for the year then ended were as follows:

Howden Insurance Brokers India Private Limited  
£'000

At beginning of year	125
Share of loss before interest and tax arising in the year	(98)
Share of interest charge	(11)
Share of tax charge	-
<b>At end of year</b>	<b>16</b>

## 17. DEBTORS

	2008 GROUP £'000	2008 COMPANY £'000	2007 GROUP £'000	2007 COMPANY £'000
<b>Due within one year</b>				
Insurance debtors (note 1(l))	77,600	-	76,269	-
Deferred tax recoverable (note 21)	545	16	403	67
Tax recoverable	166	39	46	3
Other debtors	2,602	208	1,829	223
Prepayments and accrued income	13,144	2,902	6,562	192
Amount due from associated undertaking	126	-	43	43
Amount due from Group undertakings	-	15,629	-	3,245
Dividends receivable from Group undertakings	-	315	-	1,330
Loans due from Group undertakings	-	11,706	-	2,287
	<b>94,183</b>	<b>30,815</b>	<b>85,152</b>	<b>7,390</b>
<b>Due after more than one year</b>				
Loan notes receivable	287	-	111	-
	<b>94,470</b>	<b>30,815</b>	<b>85,263</b>	<b>7,390</b>

## 17. DEBTORS (CONTINUED)

The loan notes receivable bear interest at 2.75% pa, are repayable on 31 December 2010 and are secured on 12.5% of the shares of Howden Insurance Brokers AB held by minorities.

## 18. CASH AND BANK BALANCES

	2008 GROUP £'000	2008 COMPANY £'000	2007 GROUP £'000	2007 COMPANY £'000
Insurance balances held on behalf of clients and insurers (note 1(l))	31,825	206	25,594	-
Other cash balances	5,272	367	6,829	2,072
	<b>37,097</b>	<b>573</b>	<b>32,423</b>	<b>2,072</b>

The use of insurance balances is restricted in accordance with the regulations governing those accounts.

Security deposits of £265,000 (2007 - £153,000) are included in other cash balances for the Group and the Company. These are held in respect of letters of credit given to Howden Insurance Brokers India Private Limited to guarantee their borrowings of £214,000 (2007 - £Nil).

## 19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 GROUP £'000	2008 COMPANY £'000	2007 GROUP £'000	2007 COMPANY £'000
Bank overdrafts (secured)	310	-	155	-
Bank loans (secured)	15	-	543	-
Insurance creditors (note 1(l))	101,823	-	94,968	-
Amount owed to Group undertakings	-	5,033	-	88
Corporation tax	1,838	-	1,740	-
Other taxation and social security costs	805	-	847	561
Obligations due under finance leases	64	-	36	36
Dividends payable to minority shareholders	214	-	655	-
Other creditors	4,027	516	2,095	535
Accruals and deferred income	5,000	225	4,537	1,425
	<b>114,096</b>	<b>5,774</b>	<b>105,576</b>	<b>2,645</b>

The bank loans and overdrafts are secured by means of a debenture over certain of the Group's assets and bear interest ranging between 2% pa over the Bank of Scotland Plc Euro base rate and 2.5% pa over the Royal Bank of Scotland Plc base rate.

Included within other creditors are pension contributions amounting to £71,000 (2007 - £69,000).

## 20. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2008 GROUP £'000	2008 COMPANY £'000	2007 GROUP £'000	2007 COMPANY £'000
Bank loans (note 19)	12,603	12,603	542	-
Preferred and A ordinary redeemable shares of £1 each (note 22)	-	-	79	79
Share premium in respect of preferred and A ordinary redeemable shares (note 22)	-	-	4,046	4,046
Loans owed to third parties	117	-	2,450	2,350
Unsecured loan notes	-	-	215	215
Obligations due under finance leases	131	-	43	43
Other	930	-	296	-
	<b>13,781</b>	<b>12,603</b>	<b>7,671</b>	<b>6,733</b>

The bank loans of £12,603,000 are part of a £14,000,000 five year revolving credit facility with HSBC Bank Plc. This facility bears interest at 1.25% over LIBOR and is secured by cross-guarantees and debentures over the Company and certain of its UK subsidiary undertakings and is repayable within 5 years.

Obligations due under finance leases are payable within two years with the remaining balance of £Nil (2007 - £19,000) payable between 2 and 5 years.

The Company owes B P Marsh & Partners Plc £nil (2007 - £2,350,000). This loan was secured by a debenture over the assets of the Company and bore interest at the greater of 12% pa or the aggregate of 10% pa and the Royal Bank of Scotland Plc base rate.

JK Buckenham Limited owes £100,000 (2007 - £100,000). This loan bears interest at 2.5% pa over the Royal Bank of Scotland Plc base rate and has no fixed repayment date. The Company owes £Nil (2007 - £215,000) under similar terms.

## 21. PROVISION FOR DEFERRED TAX

	2008 GROUP £'000	2008 COMPANY £'000	2007 GROUP £'000	2007 COMPANY £'000
Decelerated capital allowances	218	-	175	52
Pension accruals	21	-	20	20
Losses carried forward	306	16	208	-
Other short term timing differences	-	-	-	(5)
<b>Deferred tax asset (note 17)</b>	<b>545</b>	<b>16</b>	<b>403</b>	<b>67</b>
Asset at start of year	403	67	105	67
Deferred tax credit in profit and loss account for period (note 12 (a))	142	(51)	298	-
<b>Asset at end of year (note 17)</b>	<b>545</b>	<b>16</b>	<b>403</b>	<b>67</b>

The recoverability of tax losses is dependent on there being sufficient future taxable profits. Current forecasts support the partial recoverability of these losses in the foreseeable future. Accordingly no debtor has been recognised in respect of losses not expected to be recovered in the foreseeable future.

## 21. PROVISION FOR DEFERRED TAX (CONTINUED)

### Factors that may affect future tax charges

The Group has capital losses of £184,000 (2007 - £184,000) available to carry forward for offset against future capital gains.

The Group has eligible unrelieved foreign tax of £182,000 (2007 - £105,000) available to carry forward for offset against any tax arising on future overseas Group dividends.

The Group has trade losses of £6,793,000 (2007 - £2,990,000) for offset against future income, subject to certain restrictions.

## 22. CALLED UP SHARE CAPITAL

GROUP AND COMPANY	2007		2007	
	ALLOTTED AND CALLED UP		AUTHORISED	
	NUMBER '000	£'000	NUMBER '000	£'000
<b>Classified as equity</b>				
Ordinary shares of £1 each	212	212	219	219
Deferred 'B' ordinary shares of £1 each	22	-	22	22
	<b>234</b>	<b>212</b>	<b>241</b>	<b>241</b>
<b>Classified as debt</b>				
Preferred cumulative ordinary shares of £1 each	58	58	58	58
'A' ordinary redeemable shares of £1 each	21	21	21	21
	<b>79</b>	<b>79</b>	<b>79</b>	<b>79</b>

At 30 September 2007 the issued deferred 'B' ordinary shares of £1 each were partly paid. All other issued classes of shares were fully paid.

GROUP AND COMPANY	2008		2008	
	ALLOTTED AND CALLED UP		AUTHORISED	
	NUMBER '000	£'000	NUMBER '000	£'000
<b>Classified as equity</b>				
A ordinary shares of £0.01 each	38,090	381	38,105	381
B ordinary shares of £0.01 each	2,632	26	3,395	34
	<b>40,722</b>	<b>407</b>	<b>41,500</b>	<b>415</b>

On 31 March 2008 the deferred 'B' ordinary shares of £1 each were fully paid raising £1,210,000. The proceeds were used to redeem the 'A' ordinary redeemable shares of £1 each. On the same day the Company's authorised share capital was increased to £379,833 by the creation of a total of 59,475 ordinary shares of £1 each. 49,223 ordinary shares of £1 each were allotted at £260.04 per share with the proceeds used to acquire shares from minorities in certain subsidiary undertakings. In addition option holders exercised options over 5,253 ordinary shares raising £538,000 and a further 4,999 ordinary shares were allotted to 3i Group Plc for £260.04 per share. The proceeds were used to provide additional working capital.

## 22. CALLED UP SHARE CAPITAL (CONTINUED)

Following these transactions the Company's ordinary, preferred cumulative and deferred 'B' ordinary shares of £1 each were reclassified as A ordinary shares and their nominal value was subdivided to £0.01 per share. In addition the Company's authorised capital was increased to £413,787 by the creation of 3,395,400 B ordinary shares of £0.01 each.

On 28 April 2008 2,363,000 A ordinary shares of £0.01 each were allotted to 3i Group Plc for a total consideration of £5,131,000 in order to provide additional working capital.

On 28 May 2008 the Company's authorised share capital was increased to £415,000 by the creation of an additional 121,300 A ordinary shares of £0.01 each. On the same date 353,800 A ordinary shares of £0.01 each were allotted for a total consideration of £920,000. On 24 September 2008 250,800 A ordinary shares of £0.01 each were allotted for a total consideration of £653,000. The proceeds for both issues of shares were used to acquire minority shareholdings in certain subsidiary undertakings.

On 30 September 2008 2,632,300 B ordinary shares of £0.01 each were allotted at par for cash raising £26,000 of additional working capital.

The A ordinary and B ordinary shares of £0.01 each rank pari passu in all respects except that on the sale or liquidation of the Company the proceeds shall be divided between the shareholders as follows:

- The A ordinary shareholders will receive the first £2.6004 per share; and
- The balance shall be distributed between the A ordinary and B ordinary shareholders equally as though they were one class of share.

### SHARE OPTIONS

At 30 September 2008 the Company had issued options to certain executives to subscribe for a total of 857,600 A ordinary shares of £0.01 each. An analysis of the movement in the number of options in issue is given below;

DATE OF GRANT	HELD AT BEGINNING OF YEAR NUMBER	GRANTED NUMBER	EXERCISED NUMBER	HELD PRIOR TO SHARE CAPITAL SPLIT NUMBER	HELD FOLLOWING SHARE CAPITAL SPLIT NUMBER	LAPSED NUMBER	HELD AT END OF YEAR NUMBER
5 December 2001	1,200	-	(600)	600	60,000	-	60,000
10 February 2003	875	-	(437)	438	43,800	-	43,800
14 June 2004	850	-	(425)	425	42,500	-	42,500
14 December 2005	1,000	-	(500)	500	50,000	-	50,000
19 July 2006	750	-	(375)	375	37,500	-	37,500
8 December 2006	150	-	(75)	75	7,500	-	7,500
13 February 2007	2,000	-	(1,000)	1,000	100,000	(100,000)	-
26 March 2007	2,500	-	(1,250)	1,250	125,000	-	125,000
22 October 2007	-	197	(98)	99	9,900	-	9,900
21 November 2007	-	987	(493)	494	49,400	-	49,400
31 March 2008	-	4,320	-	4,320	432,000	-	432,000
	<b>9,325</b>	<b>5,504</b>	<b>(5,253)</b>	<b>9,576</b>	<b>957,600</b>	<b>(100,000)</b>	<b>857,600</b>

As part of the arrangements in connection with the additional capital raising at 31 March 2008 dispensation was given to and taken by certain option holders to exercise half of their share options in advance of the original due dates for the exercise.

## 22. CALLED UP SHARE CAPITAL (CONTINUED)

An analysis of the exercise price and the dates the share options may be exercised is set out below:

DATE OF GRANT	HELD AT END OF YEAR NUMBER	EXERCISE PRICE P	EXERCISABLE FROM	EXPIRY DATE
5 December 2001	60,000	22	6 December 2004	6 December 2011
10 February 2003	43,800	28	11 February 2006	11 February 2013
14 June 2004	42,500	46	15 June 2007	15 June 2014
14 December 2005	50,000	147	15 December 2008	15 December 2015
19 July 2006	37,500	150	20 July 2009	20 July 2016
8 December 2006	7,500	150	9 December 2009	9 December 2016
13 February 2007	-	150	14 February 2010	14 February 2017
26 March 2007	125,000	150	27 March 2010	27 March 2017
22 October 2007	9,900	152	23 October 2010	23 October 2017
21 November 2007	49,400	152	22 November 2010	22 November 2017
31 March 2008	432,000	72	See below	See below
	<b>857,600</b>			

On 31 March 2008 options over 4,320 ordinary shares of £1 each were granted. These options can only be exercised upon DUAL International Limited and its subsidiaries achieving a valuation in certain circumstances of either £50m or £75m, depending upon the criteria used. These options were converted to options over 432,000 A ordinary shares of £0.01 each following the share split on 31 March 2008 described above.

## 23. SHAREHOLDERS' EQUITY

GROUP	SHARE CAPITAL £'000	SHARE PREMIUM £'000	PROFIT & LOSS £'000	TOTAL £'000
At beginning of year	212	9,288	716	10,216
Deferred 'B' ordinary shares paid up	22	1,188	-	1,210
Premium on redemption of 'A' ordinary redeemable shares	-	-	(424)	(424)
Conversion of preferred shares to ordinary shares (note 22)	58	3,281	-	3,339
Share capital issued (note 22)	115	21,253	-	21,368
Costs associated with issue of share capital	-	(680)	-	(680)
Treasury shares	-	-	(91)	(91)
Profit for the year	-	-	1,179	1,179
Currency translation differences on foreign currency net investments	-	-	327	327
Share scheme incentives (note 8)	-	-	95	95
<b>At end of year</b>	<b>407</b>	<b>34,330</b>	<b>1,802</b>	<b>36,539</b>

During the year the Hyperion Insurance Group 2008 EBT was established, a discretionary trust to facilitate the operation of the Group's share incentive schemes for senior management. Treasury shares of £91,000 deducted from Group shareholders' funds represent the consideration paid for 35,000 A ordinary shares of £0.01 each in the Company purchased by the trust which had not vested unconditionally in employees at the balance sheet date.

## 23. SHAREHOLDERS' EQUITY (CONTINUED)

COMPANY	SHARE CAPITAL £'000	SHARE PREMIUM £'000	PROFIT & LOSS £'000	TOTAL £'000
At beginning of year	212	9,288	(872)	8,628
Deferred 'B' ordinary shares paid up	22	1,188	-	1,210
Premium on redemption of 'A' ordinary redeemable shares	-	-	(424)	(424)
Conversion of preferred shares to ordinary shares (note 22)	58	3,281	-	3,339
Share capital issued (note 22)	115	21,253	-	21,368
Costs associated with issue of share capital	-	(680)	-	(680)
Profit for the year	-	-	2,517	2,517
Share scheme incentives (note 8)	-	-	95	95
<b>At end of year</b>	<b>407</b>	<b>34,330</b>	<b>1,316</b>	<b>36,053</b>

The Company's profit after taxation was £2,517,000 (2007 – loss of £417,000).

## 24. MINORITY INTERESTS

	2008 £'000	2007 £'000
At beginning of year	2,931	2,235
Profit on ordinary activities after taxation	750	2,096
Foreign exchange differences	33	38
Arising on acquisition and disposals	(1,796)	(27)
Dividends payable to minorities	(1,204)	(1,411)
<b>At end of year</b>	<b>714</b>	<b>2,931</b>

## 25. OPERATING LEASES

At 30 September 2008 the Group had annual commitments under operating leases as follows:

	LAND AND BUILDINGS		OTHER	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>Expiry date:</b>				
Within 1 year	1,070	366	86	6
Between 2 and 5 years	621	913	215	114
In more than 5 years	16	12	3	1

## 26. PENSION COSTS

The Group operates a defined contribution pension scheme, the assets of which are held separately from those of the Group in an independently administered fund. The pension cost for the year is shown in note 7.

## 27. RELATED PARTY TRANSACTIONS

The Company is exempt from disclosing related party transactions with Group companies in which 90% of the shares are owned and which are included in the Group's consolidated financial statements.

The Group had the following transactions with related parties during the year:

	2008 £'000	2007 £'000
<b>Amount received/(expensed) in the year</b>		
Fees payable to Davidoff Insurance Brokers Limited	(8)	(20)
Commissions received from Davidoff Overseas Insurance Agency (1994) Limited	-	84
IT and other expenses paid to Femi Premium Limited	(24)	(29)
Fees paid to B P Marsh & Partners Plc	(200)	(155)
Interest payable to B P Marsh & Partners Plc	(185)	(360)
Fees payable to 3i Group Plc and associated undertakings	(25)	-
<b>Amounts receivable/(payable) at the end of the year</b>		
B P Marsh & Partners Plc fees payable	20	(30)
Loan from B P Marsh & Partners Plc	-	(2,350)
3i Group Plc and associated undertakings	(25)	-

R Davidoff, a former director of the Company, is also a director of Davidoff Insurance Brokers Limited, Davidoff Overseas Insurance Agency (1994) Limited and Femi Premium Limited. B P Marsh & Partners Plc owned 20.0% of the Company's issued shares at the end of the year. B P Marsh, a director of the Company, is also a director of B P Marsh & Company Limited and B P Marsh & Partners Plc. 3i Group Plc and associated undertakings had a 27.8% interest in the Company at the end of the year. D A Whileman has an interest in 3i Group Plc and associated undertakings.

R J R Elias, D P Howden, B P Marsh, R Davidoff, M N Pangborn and L I Muñoz-Rojas Entrecanales together held, either directly or through undertakings in which they have an interest, 98% of the preferred capital of the Company up to 31 March 2008. During the year they were entitled to preferred dividends of £Nil (2007: £241,000). Directors also received equity dividends in line with their holdings as disclosed in note 22.

During the year the following directors, or trusts in which they held an interest, received consideration for selling shares in the Company to 3i Group Plc and associated undertakings:

	£'000
R J R Elias	4,635
D P Howden	4,000
R P Horton (*)	260
S J Crowther (*)	326
R Davidoff	4,199
M N Pangborn	6,601

(\*) following the exercise of share options (see note 22)

D P Howden also paid up the amount outstanding on the deferred 'B' ordinary shares amounting to £1,210,000.

## 28. NOTES TO THE CASH FLOW STATEMENT

	2008 GROUP £'000	2007 GROUP £'000
<b>(A) ANALYSIS OF CASH FLOW FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT</b>		
<b>Returns on investments and servicing of finance</b>		
Interest received	267	203
Interest paid	(728)	(536)
Preferred dividends paid	(332)	(12)
Interest element of finance lease payments	(16)	(5)
Dividends paid to minorities	(1,645)	(1,171)
	<b>(2,454)</b>	<b>(1,521)</b>
<b>Capital expenditure and financial investment</b>		
Payments to acquire tangible fixed assets	(1,389)	(900)
Proceeds from sale of tangible fixed assets	10	30
	<b>(1,379)</b>	<b>(870)</b>
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertakings (note 13)	(1,248)	(404)
Payment of deferred consideration	(136)	(809)
Purchase of minority shareholdings	(25,850)	(207)
Costs associated with the purchase of subsidiaries (note 13)	(206)	(77)
Cash acquired on acquisition of subsidiaries (note 13)	1,454	-
Proceeds from shares issued in subsidiaries	1,981	58
	<b>(24,005)</b>	<b>(1,439)</b>
<b>Financing</b>		
Deferred 'B' ordinary shares of £1 each paid up (note 22)	1,210	-
Issue of ordinary shares (note 22)	21,368	5,543
Share issue costs (note 22)	(680)	(19)
Purchase of treasury shares (note 23)	(91)	-
	<b>21,807</b>	<b>5,524</b>
Drawdown of bank loans	12,603	-
Bank and loan note arrangement costs	(3,224)	-
Repayment of bank loans	(1,070)	(213)
Redemption of 'A' ordinary redeemable £1 shares (note 22)	(1,210)	-
Capital element of finance leases	(62)	(28)
Repayments of loans to third parties	(2,350)	-
Repayment of loan notes	(215)	(152)
	<b>4,472</b>	<b>(393)</b>
	<b>26,279</b>	<b>5,131</b>

## 28. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(B) ANALYSIS OF NET FUNDS - GROUP	BEGINNING OF YEAR £'000	CASH FLOWS £'000	NON-CASH CHANGES £'000	END OF YEAR £'000
Cash in hand and at bank	32,423	4,674	-	37,097
Bank overdrafts due within one year	(155)	(155)	-	(310)
	<b>32,268</b>	<b>4,519</b>	<b>-</b>	<b>36,787</b>
Bank loans due within one year	(543)	1,070	(542)	(15)
Bank loans due after more than one year	(542)	(12,603)	542	(12,603)
Bank and loan arrangement costs	-	3,224	(322)	2,902
Preferred shares	(3,339)	-	3,339	-
'A' ordinary redeemable shares	(786)	1,210	(424)	-
Finance leases	(79)	62	(178)	(195)
Other debt due after more than one year	(2,450)	2,350	-	(100)
Loan notes	(215)	215	-	-
	<b>24,314</b>	<b>47</b>	<b>2,415</b>	<b>26,776</b>

**Non cash changes**

During the year the Group entered into finance leases in respect of assets with a total capital value at inception of £178,000 (2007 - £107,000). The non cash movement in respect of preferred shares represents their conversion to A ordinary £0.01 shares described in note 22.

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