

**HARRODS GROUP TRUSTEES LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**52 WEEKS ENDED 31 JANUARY 1998**



**Registered Number: 0353351**

**HARRODS GROUP TRUSTEES LIMITED**

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# HARRODS GROUP TRUSTEES LIMITED

## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company for the 52 weeks ended 31 January 1998.

### Principal Activity

The Company did not trade or conduct any other activities during the 52 weeks ended 31 January 1998. No changes are expected in the immediate future.

### Directors and their Interests

The present Directors of the Company are:

A Anderson  
P E Anderson (appointed 14.5.97)  
J J Bekenn  
C P de Boer  
T J Dale (appointed 1.4.98)  
S Jerman  
M G Waller (appointed 1.4.98)

Other directors who served during the year were:

W A Craddock, LVO (resigned 31.3.98)  
G Willoughby (resigned 31.3.98)

In accordance with the Articles of Association, no Director is required to seek re-election.

No Director in office at 31 January 1998 held any beneficial interest in the shares of Harrods Holdings plc or any of its subsidiaries at 2 February 1997, date of appointment if later or at 31 January 1998.

No Director has had a material interest, directly or indirectly, at any time during the year in any contract significant to the business of the Company.

### Auditors

Price Waterhouse have expressed their willingness to continue in office as Auditors to the Company and a resolution proposing their re-appointment will be put to the Annual General Meeting.

## HARRODS GROUP TRUSTEES LIMITED

### DIRECTORS' REPORT (Continued)

#### Statement of Directors' Responsibilities

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors have prepared the financial statements on pages 4 and 5 on a going concern basis and consider that the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By Order of the Board



S Jerman  
Secretary  
17 April 1998

Registered Office  
87 -135 Brompton Road  
Knightsbridge  
London  
SW1X 7XL

**HARRODS GROUP TRUSTEES LIMITED**

**AUDITORS' REPORT  
TO THE MEMBERS OF HARRODS GROUP TRUSTEES LIMITED**

We have audited the financial statements on pages 4 to 6 which have been prepared under the historical cost convention and the accounting policies set out on page 5.

**Respective Responsibilities of Directors and Auditors**

As described on page 2 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of Opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 January 1998 and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse  
Chartered Accountants  
and Registered Auditors  
17 April 1998

Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY

# HARRODS GROUP TRUSTEES LIMITED

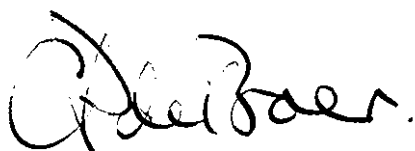
## BALANCE SHEET AT 31 JANUARY 1998

Note	31/1/98 £	1/2/97 £
<b>Current Assets</b>		
Cash at bank in hand	<u>20</u>	<u>20</u>
<b>Capital And Reserves</b>		
3 Called up share capital	52	52
Profit and loss reserve	<u>(32)</u>	<u>(32)</u>
<b>Total Shareholders' Funds</b>	<u>20</u>	<u>20</u>

A profit and loss account has not been produced as the Company did not trade during the financial year or the preceding financial year making neither a profit nor a loss.

The notes on page 5 to 6 form part of these accounts.

Approved by the Board on 17 April 1998



C P de Boer  
DIRECTOR

# HARRODS GROUP TRUSTEES LIMITED

## NOTES TO THE ACCOUNTS

### 1 Accounting Policies

#### Basis of Financial Statements

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

### 2 Information regarding Directors and Employees

No emoluments were paid to the Directors of the Company during the year (1996/97 - £nil).

The Company did not employ any persons or incur any staff costs during the year (1996/97 - £nil).

	31/1/98	1/2/97
	£	£
<b>3 Called up Share Capital</b>		
Authorised:		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Issued and fully paid:		
52 ordinary shares of £1 each	<u>52</u>	<u>52</u>
<b>4 Reconciliation of movement in shareholders' funds</b>		
Opening shareholders' funds	<u>20</u>	<u>20</u>
Closing shareholders' funds	<u>20</u>	<u>20</u>

## HARRODS GROUP TRUSTEES LIMITED

### NOTES TO THE ACCOUNTS (CONTINUED)

#### 5 Parent Undertakings

The Company's immediate parent undertaking is Harrods (UK) plc. The immediate parent undertaking of Harrods (UK) plc is Harrods Holdings plc, which is the parent undertaking of the Harrods Holdings Group and which is both the smallest and the largest Group which consolidates the results of the Company. The Group accounts will be filed with the Registrar of Companies in due course.

The ultimate undertaking is Alfayed Investment and Trust PVT LP, a partnership based in Bermuda. All interests in the Partnership continue to be under the control and held for the benefit of the Fayed family, the ultimate controlling party.

The Company is a wholly owned subsidiary of Harrods Holdings plc and, as permitted by Financial Reporting Standard 8 "Related Party Disclosures", transactions with other entities in the Harrods Holdings Group are not disclosed.



2129326

**THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED**

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**COMMITTEE**

**Chairman**

M.L. Eldred MSc, CEng, FStructE, MICE (Appointed Chairman 23rd September 1997)  
Sir John Lucas-Tooth (Resigned 23rd September 1997)

**Members of the Committee**

N.J. Smithers BSc, MSc, CEng, FStructE, MICE  
S.J. Noakes FCA  
C. Matthews BSc, CEng, MICE, MStructE  
L.D. Lucas FCII  
J. Hawkins EurIng Beng, CEng MICE  
(Appointed 13th March 1997, resigned 24th June 1997)  
F. Van Loock BSc, MStructE, MICE, CEng  
(Appointed 1st February 1998)

Smithers Purslow & Company Ltd  
Beavis Walker (Chartered Accountants)  
Maddocks Lusher & Matthews  
  
Maddocks Lusher & Matthews  
  
Frank Van Loock Associates

**MANAGERS**

Indemnity Management Services Limited

**Managing Director**

A.C. Howe LLB, FCI Arb. Solicitor

**Underwriter**

F.W. Chappel BA

**Auditors**

Deloitte & Touche  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

**Bankers**

Lloyds Bank plc  
72 Fenchurch Street  
London EC3P 3EH

**Investment Advisers**

Newton Investment Management Limited  
71 Queen Victoria Street  
London EC4V 4DR

**Registered Office**

Roman Wall House  
1-2 Crutched Friars  
London EC3N 2NB

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**THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED**

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**THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED**

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**THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED**

Registered Office:

Roman Wall House  
1-2 Crutched Friars  
London EC3N 2NB

Established 1987

Registered in England No. 2129326

**REPORT AND ACCOUNTS 1998**

**NOTICE OF MEETING**

Notice is hereby given that the tenth Annual General Meeting of the Members of The Structural Engineers' Professional Indemnity Association Limited will be held at Roman Wall House, 1-2 Crutched Friars, London EC3N 2NB at 12.45pm on 22nd September 1998 for the following purposes:

1. To receive and consider the Report of the Committee and the Financial Statements which are printed herein for the year ended 28th February 1998.
2. To elect Members of the Committee.
3. To re-appoint Auditors and to authorise the Committee to fix their remuneration.
4. To fix the remuneration of the Committee.
5. To require the Company to maintain Directors and Officers insurance cover.
6. To transact any other ordinary business of the Company.

Members may appoint proxies, who must be Members, to vote in place of them and proxy forms must be lodged at Roman Wall House, 1-2 Crutched Friars, London, EC3N 2NB not less than 48 hours before the time of the meeting or, in the case of a poll, not less than 24 hours before the time appointed for taking the poll.

By Order of the Committee



**A.C. HOWE - Managing Director**  
**INDEMNITY MANAGEMENT SERVICES LIMITED (Secretary)**

**CHAIRMAN'S STATEMENT**

This is my first report to you as Chairman of the Company and covers the events of the first year in run-off.

I am pleased to inform you that 147 claim files of the 279 which existed at the start of the year, have now been closed. I am also pleased to report that the budgets set at the end of last year, when we notified Members of very substantial Calls, are holding. Nothing has occurred during the year to suggest that the Calls notified will need to be increased.

This encouraging start to the run-off will assume greater significance when I tell you that it has not been possible to obtain satisfactory terms for a reinsurance policy to close SEPIA's liabilities. You will recall our hope that such insurance would be available to the Members as a means of fixing their liability at reasonable cost. Unfortunately, despite considerable effort by all concerned, the Committee considered that neither the premium finally set by insurers, nor the cover offered could be recommended to the Membership.

We therefore have to deal with 132 more claims in a satisfactory and orderly fashion to complete the run-off. The Membership cannot avoid that liability and I want us all to be reasonably aware of what is happening, whether good or bad, as matters progress. In future I shall be writing to you about halfway through each year as well as making an annual report, so that you are kept informed. Now I would like to tell you something about the way the business of the run-off is dealt with and how you can help to keep the costs to a minimum.

The main task is to dispose of the remaining claims efficiently and with as little cost as possible to the Membership. Even for a successful defence, the retained costs of litigation are very considerable and since the law in professional negligence cases can in any event seem capricious, resolution of a claim by trial is always the method of last resort. Most frequently, settlement is achieved by hard negotiation over an extended period, sometimes years. The strengths and weaknesses of a case change with events, and it is this, rather than simple considerations of right and wrong, which usually influence claims estimates. The Committee reviews progress on claims having an estimated cost greater than £100,000, and proposed settlements which are above that amount have to be justified to and formally approved by it at all stages. The claims sub-committee reviews claims greater than £10,000. Other costs are of course paid with the Calls, which are met by the Members. We now have no other significant income to assist cash flow.

There are three elements to the cost of disposing of the claims. The first is the administrative cost, which consists broadly of the Managers' and Committee Members' remuneration together with other general expenses. So far all of these remain as estimated. The second, and the largest, is the cost of claims. Last year's programme of increased Supplementary Calls resulted from modification of the Managers' estimates to reflect a combination of their own and independent Actuarial figures. In general, the claims which were closed in the last year were settled within those estimates and in overall terms, the estimates now show some improvement.

The third element of our costs should not exist at all. In the main it comprises the retained legal costs associated with the recovery of debts from Members, and it is sad to note that the Scheme has already incurred expenses of approximately £93,000 in this regard.

I wish to make it quite clear that the attempts made by some Members to avoid their liabilities, despite having the means to pay, will not be tolerated. It is unreasonable for them to expect the rest of the Membership to pay their debts, and it is worse that they should be seeking to pass those debts to others who, sometimes worse off than they, are continuing to honour their obligations.

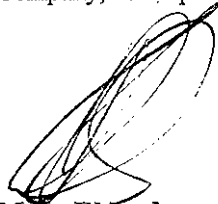
The Managers are under firm instructions to collect all sums from the Members unless prevented from doing so by liquidation or bankruptcy. Proceedings have been issued in a number of cases and the Members concerned have been required to pay interest and costs as well as the principal amount. In other cases, failure to pay has resulted in cover for existing claims being withdrawn in accordance with the SEPIA Rules.

Of course, there may be cases of exceptional hardship, and if so there is a Hardship Questionnaire available from the Managers for those who wish to submit full details of all of their circumstances for confidential consideration by the Committee.

**CHAIRMAN'S STATEMENT (Continued)**

The Managers and others on the Committee are making considerable efforts to minimise the cost of running off the Scheme. You can help to keep your individual costs to a minimum by continuing to meet the Calls made upon you promptly, and by encouraging others to do the same. Quite apart from the direct savings which would result, it would make good sense to allow the Managers to focus their efforts on bringing the claims to a successful conclusion, rather than be engaged in disputes over the collection of funds. If that can happen there is some reason to hope that the improving claims position will continue and that some of the Supplementaries may not, after all, be required.

That would be the best news that I, both as a contributing Member of SEPIA and also as Chairman of the Company, could possibly give you.



**M. L. Eldred**  
**CHAIRMAN**

*Done 21st August 1998*

## THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

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### REPORT OF THE COMMITTEE

The Committee takes pleasure in presenting its Report and audited Financial Statements to 28th February 1998 to the Members at the tenth Annual General Meeting.

#### 1. PRINCIPAL ACTIVITIES

The Company has ceased its principal activity, which was the insurance of Professional Indemnity risks for firms of Structural Engineers, and is now in run-off.

#### 2. COMMITTEE

The Members of the Committee during the year ended 28th February 1998 were those listed on the first page of the Financial Statements. Mr L. D. Lucas retires by rotation and offers himself for re-election. Mr J. Hawkins was appointed as an alternate to Mr C. Matthews on 13th March 1997 and resigned on 24th June 1997. Sir John Lucas-Tooth has stepped down as Chairman and Mr M. Eldred succeeded him. Mr F. Van Loock was appointed on 1st February 1998 and offers himself for re-appointment.

#### 3. REMUNERATION

Apart from the remuneration referred to in this Report and in Notes 4 and 6 to the Accounts, the Members of the Committee and Managers receive no commission or other benefits from their services to the Company other than those declared below.

#### 4. DECLARATION OF INTEREST

All Members of the Committee, with the exception of Sir John Lucas-Tooth, S.J. Noakes and L.D. Lucas, had an interest in insurance contracts with the Company.

Indemnity Insurance Services Limited, a former subsidiary of Indemnity Management Services Limited, received commission of £ Nil (1997 £575) in relation to the placement of the Directors and Officers insurance for the Committee.

Another subsidiary, Collegiate Insurance Brokers Limited (formally Mutual Insurance Services Limited) benefits from commission earned on the placement of excess layer insurance contracts and the provision of ancillary covers not related to the business of the Company, totalling £3,023 (1997 £2,780).

Members of the Technical Advisory panel, who are also Members of the Committee, from time to time are instructed to give expert advice in relation to the handling of claims or other technical services.

#### 5. ACCOUNTS

The annexed Accounts cover the Financial Year to 28th February 1998 and the Income & Expenditure for the year is shown on pages 9 and 10. Including the Supplementary Calls, the Company has a balance to pay claims of £2,874,730 (1997 £3,751,376) against a claims reserve of £2,874,730 (1997 £3,751,376). To avoid any misinterpretation, the Accounts should be read in conjunction with the Policy Year Funds Statement at Note 19 to the Accounts.

#### 6. FINANCIAL STATE OF THE FUND

It is believed that the final settlement of claims against Members may take at least four years, hence the collection of calls is being spread over a number of years enabling the Company to obtain the necessary funds to meet its liabilities as they fall due. Should the claims settle more quickly than the anticipated pattern, it may be necessary to accelerate the collection of calls. Whilst reserves have been included for administrative costs and collection charges, these will depend upon orderly run-off with Members agreeing to meet the liabilities as they fall due.

REPORT OF THE COMMITTEE (Continued)

7. CLAIMS RESERVATIONS & NOTIFICATIONS

The loss ratio on each Policy Year is shown below, where this ratio represents claims paid and outstanding (net of reinsurance recoveries and reinstatement premiums paid) as a percentage of the policy year's net Basic Contributions, Supplementary Calls and Release Contributions.

	1998	1997
Policy Year 1991/92	63.8%	54.6%
Policy Year 1992/93	68.1%	64.3%
Policy Year 1993/94	62.9%	64.0%
Policy Year 1994/95	59.5%	71.8%
Policy Year 1995/96	64.2%	69.8%
Policy Year 1996/97	76.8%	74.5%

8. SUPPLEMENTARY CALLS

The Supplementary Calls to be levied include all previously notified and are as follows:

Policy Year	Financial year commencing 1st March 1998	Financial year Commencing 1st March 1999	Financial year commencing 1st March 2000	Financial year Commencing 1st March 2001
1992/93	5.75%	5.75%	5.75%	5.75%
1993/94	12.00%	12.00%	12.00%	12.00%
1994/95	33.00%	16.00%	16.00%	16.00%
1995/96	32.50%	20.00%	20.00%	20.00%
1996/97	36.00%	23.50%	23.50%	23.50%

The percentages apply to the Basic Contributions payable in the policy year in question. The Supplementary Calls will be collected by quarterly instalments during the financial years stated above. It should be emphasised that Members will ultimately pay the actual cost of claims and expenses, hence the sums eventually levied and collected may differ from the figures set out in the table above.

9. CLOSURE OF POLICY YEARS

No policy year will be closed until all liabilities are settled.

10. RELEASE CONTRIBUTIONS

No Release Contributions will be imposed upon Members and releases may only be granted to Members where extraordinary circumstances warrant it. There will be no general imposition of Release Contributions until the ultimate liabilities of the Company are known. It is possible that the Company may seek to transfer its liabilities to another insurer, in which case Release Contributions might be imposed upon the Membership, but such steps would only be taken with the consent of the majority of the Members, by way of a Special Resolution at an Extraordinary General Meeting called for that purpose.

**REPORT OF THE COMMITTEE (Continued)**

**11. THE COMING YEAR**

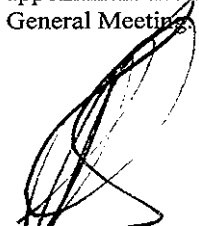
The job of the Committee and the Managers is to ensure an orderly run-off and to dispose of the outstanding liabilities as quickly and economically as possible. Negotiations to date with Trenwick International plc and other potential reinsurers have not given rise to any proposal which the Committee considers could be recommended to the Members. However, the Committee will continue to investigate and, if feasible, negotiate satisfactory arrangements as the run-off progresses with a view to concluding a reinsurance contract which will limit the liabilities of the Members to supplementary calls and provide certainty of cost on acceptable terms.

**12. INVESTMENT MANAGERS**

In view of the relative size of the fund and the need for liquidity, it was decided that the Company would no longer retain the services of the investment managers, Newton Investment Management Limited.

**13. AUDITORS**

Deloitte & Touche have indicated their willingness to continue in office. A resolution for their re-appointment and authorising the Committee to fix their remuneration will be proposed at the Annual General Meeting.



**M. E. Eldred**  
**CHAIRMAN**



**STATEMENT OF COMMITTEE MEMBERS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

Company law requires the Committee Members to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the Income & Expenditure of the Company for that period. In preparing those accounts, the Committee Members are required to:

- \* select suitable accounting policies and apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed;
- \* prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Committee Members have delegated these responsibilities to the Managers who manage the Company on a day to day basis.

**THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED**

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**REPORT OF THE AUDITORS**

**to the members of**

**THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED**

We have audited the accounts on pages 9 to 21, which have been prepared on the basis of the accounting policies set out on pages 13 and 14.

**Respective responsibilities of Committee Members and auditors**

As described on page 7 the Committee Members are responsible for the preparation of the Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those Statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Committee Members 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 mis-statement, 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.

**Future Funding**

In forming our opinion, we have considered the adequacy of the disclosure made in Note 1(i) to the Accounts concerning the Company's dependence on the ability of the Members to meet the current and future calls. In view of the significance of this matter, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

**Opinion**

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company as at 28th February 1998 and of the result of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

**Deloitte & Touche  
Chartered Accountants and  
Registered Auditors**

*25 August 1998*

**Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR**

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

**INCOME & EXPENDITURE ACCOUNT**  
for the year ended 28th February 1998

	Notes	1998 £	1997 £
<b>TECHNICAL ACCOUNT – GENERAL BUSINESS</b>			
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>			
Gross premiums written	2	(21,603)	1,055,728
Outward reinsurance premiums	2	-	(342,160)
Other contributions	2	2,309	2,421,445
Earned premiums, net of reinsurance		<u>(19,294)</u>	<u>3,135,013</u>
<b>ALLOCATED INVESTMENT INCOME TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT</b>			
		19,638	37,987
<b>TOTAL TECHNICAL INCOME</b>		<u>344</u>	<u>3,173,000</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Claims paid - gross amount		1,092,430	1,333,208
- reinsurance recoveries		(606,778)	(493,467)
- reinsurance reinstatements		89,620	58,984
- net claims paid	3	<u>575,272</u>	<u>898,724</u>
Change in the provision for claims			
- gross amount (including in 1997 an exceptional charge for claims handling costs of £560,386)		(1,098,438)	1,362,790
- reinsurance recoveries		266,490	164,489
- reinsurance reinstatements		(44,698)	85,849
- changes in the net provision for claims	3	<u>(876,646)</u>	<u>1,613,128</u>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>	3	<u>(301,374)</u>	<u>2,511,852</u>
<b>NET OPERATING EXPENSES</b>			
Managers' remuneration	4	151,056	233,599
Brokerage		8,978	54,471
Administrative expenses (including in 1997 an exceptional charge for bad debts and costs of collection of £295,643)	5	141,684	449,133
<b>TOTAL NET OPERATING EXPENSES</b>		<u>301,718</u>	<u>3,249,055</u>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>£ -</u>	<u>£(76,055)</u>

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

**INCOME & EXPENDITURE ACCOUNT (Continued)**  
for the year ended 28th February 1998

	Notes	1998 £	1997 £
<b>NON -TECHNICAL ACCOUNT</b>			
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		-	(76,055)
Investment return			
Income from listed investments		6,658	24,174
Income from other investments		-	11,447
Other interest receivable		20,777	2,786
Realised (losses)/gains on investments		(1,335)	688
Investment managers' fee		(198)	(1,108)
Allocated investment income transferred to the technical account		(19,638)	(37,987)
		-----	-----
<b>SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES BEFORE TAX</b>		6,264	(76,055)
Tax on surplus/(deficit) on ordinary activities	7	(6,264)	(9,388)
		-----	-----
<b>RESULT ON ORDINARY ACTIVITIES AFTER TAX</b>		-	(85,443)
Balance brought forward from previous year		-	85,443
		-----	-----
<b>BALANCE OF FUND AVAILABLE TO MEET KNOWN AND FUTURE CLAIMS</b>	13	£ -	£ -
		=====	=====

All of the operations of the Company are continuing.

**STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES**  
for year ended 28th February 1998

There are no recognised gains or losses other than the result on ordinary activities after tax attributable to the Members of the Company of £ Nil (1997 deficit £85,443) for the current and preceding financial year.

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

**BALANCE SHEET**  
at 28th February 1998

	Notes	1998 £	1997 £
<b>ASSETS</b>			
INVESTMENTS	8	-	291,584
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Outstanding claims	16	637,763	904,253
<b>DEBTORS</b>			
Debtors arising out of reinsurance operations	9	220,322	105,772
Debtors arising out of direct insurance operations	9	1,199,423	638,979
Other debtors and prepayments		3,359	85,623
DEBTORS due after more than one year	9	1,657,390	2,837,852
<b>OTHER ASSETS</b>			
Cash at bank and in hand		33,784	135,283
<b>TOTAL ASSETS</b>		<u>£3,752,041</u>	<u>£4,999,346</u>
<b>LIABILITIES</b>			
<b>TECHNICAL PROVISIONS</b>			
Claims outstanding	16	3,512,493	4,655,629
<b>CREDITORS: Amounts falling due within one year</b>			
Creditors arising out of reinsurance operations	10	51,727	27,202
Creditors arising out of direct insurance operations	10	55,501	68,358
Other creditors including taxation and social security	10	132,320	248,157
<b>TOTAL LIABILITIES</b>		<u>£3,752,041</u>	<u>£4,999,346</u>

Approved by the Committee on 21st August 1998

  
**M.L. Eldred**  
Chairman

  
**A.C. Howe**  
Managing Director  
For Indemnity Management Services Limited

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

**CASH FLOW STATEMENT**  
for the year ended 28th February 1998

	Notes	1998 £	1997 £
<b>Operating activities</b>			
Premium income		41,152	806,489
Supplementary calls and Release contributions		473,999	833,263
Brokerage		(8,978)	(54,471)
Reinsurance premiums		(5,212)	(342,160)
Reinsurance recoveries received		492,227	350,702
Claims paid		(1,101,241)	(1,447,273)
Managers' remuneration		(176,948)	(126,818)
Other expenses		(138,037)	(110,988)
<b>Net cash outflow from Operating activities</b>	18	(423,038)	(91,256)
<b>Returns on investments and Servicing of finance</b>			
Investment income		37,426	40,255
<b>Taxation</b>			
Corporation tax paid		(6,136)	(22,714)
		<u>£(391,748)</u>	<u>£(73,715)</u>

**MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS**

	Notes	1998 £	1997 £
Decrease in cash		(106,401)	(161,656)
Cash (outflow)/inflow from (decrease)/increase in liquid resources		(285,347)	87,941
Change in portfolio investments resulting from cash flows	17	(391,748)	(73,715)
Movement in investment valuations	17	(1,335)	688
Portfolio investments at 1st March	17	426,867	499,894
Portfolio investments at 28th February	17	<u>£33,784</u>	<u>£426,867</u>

**NOTES TO THE ACCOUNTS**  
**for the year ended 28th February 1998**

**1. ACCOUNTING POLICIES**

**(i) Basis of presentation**

The Financial Statements are prepared on the basis of the accounting policies set out below. Except for reinstatement premiums which are included in claims incurred, net of reinsurance, the Financial Statements are prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. Certain Notes to the accounts have been expanded and disclose additional information.

The Company will be required to meet any deficiencies that may arise through Supplementary Calls on Members. The Committee acknowledges that the going concern status of the Company is dependent on the ability of its Members to meet the future calls.

On the basis of the Members' previous payment of calls made, discussions with the Members and the result of action taken against certain Members, the Committee has formed the judgement that the Members will be able to meet future calls as and when required. On this basis, the Committee considers it appropriate to prepare the Financial Statements on a going concern basis. The Financial Statements do not include any adjustments that would result from the inability of the Members to meet such calls.

**(ii) Basis of Accounting for Underwriting Activities**

The fund basis of accounting is adopted. For each policy year, the balance of premiums written and contributions, less claims payments and related reinsurance, is carried forward as a fund available to meet known and future claims. The adequacy of the fund is assessed for each policy year by deducting the estimated ultimate cost of claims and settlement expenses from Members' total net contributions and investment income.

All underwriting transactions, such as contributions from Members, reinsurance premiums payable, claims and reinsurance recoveries, are allocated to the Policy Year to which they relate. In the case of claims and reinsurance recoveries the appropriate year is decided by the date on which either the claim is notified to the Member or the possible circumstances giving rise to the claim is notified to the Company. Other income and expenditure is allocated to the current Policy Year or period except for interest receivable which is allocated to Policy Year funds and to the Contingency Reserve on the basis of the average balances held in respect of each fund during the year.

Members remain liable for their rateable proportion of any excess of claims and expenses over income for a particular policy year until a year is closed and may, at the discretion of the Committee, have returned to them any balance not retained and applied for the purposes of the Company. Note 19 shows the Policy Year Funds Statement.

**(iii) Income and Claims**

Contributions from Members including known Supplementary Calls, are credited to the Income & Expenditure Account when charged to Members. Release Contributions are only recognised in the Income & Expenditure Account on an accruals basis as far as they include known Supplementary Calls, otherwise they are included only upon receipt.

**THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED**

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**NOTES TO THE ACCOUNTS (Continued)  
for the year ended 28th February 1998**

**(iii) Income and Claims (Continued)**

Claims, related expenses and Return Contributions are charged to the Income & Expenditure Account when they have been paid or approved by the Committee.

**(iv) Outstanding Claims**

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date.

Any difference between provisions and subsequent settlements are dealt with in the technical account of later years.

**(v) Claims Handling Expenses**

Full provision is made for the estimated internal and external costs of handling claims during the run-off of policy years.

**(vi) Reinsurance Premiums and Recoveries**

Reinsurance premiums are stated on an accruals basis.

Reinsurance recoveries are accrued to match the relevant claims that have been charged to the Income & Expenditure Account.

**(vii) Investments**

Investments are stated at market value.

**(viii) Investment Income: Bank and other interest**

Interest receivable is accrued on investments and bank deposits.

**(ix) Profits/Losses on Sale of Investments**

Profits/losses on the sale of investments are credited/charged to the Income & Expenditure Account whether realised or unrealised.

**(x) Expenses**

Expenses are stated on an accruals basis.

**(xi) Deferred Taxation**

Deferred taxation is provided on short term timing differences.

**(xii) Transfer of Investment Returns**

A transfer of investment return, including unrealised gains and losses, expenses and charges, is made from the non-technical account to the technical account - general business to reflect the return made on those assets directly attributable to the insurance business.

**(xiii) Insurance debtors and creditors**

Balances arising from insurance transactions are presented in compliance with Financial Reporting Standard No. 5 'Reporting the Substance of Transactions'.



THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

NOTES TO THE ACCOUNTS (Continued)  
for the year ended 28th February 1998

2. PREMIUM ANALYSIS

(i) Premiums written

As the Company is now in run-off, all premium income relates to adjustments on prior policy years. No reinsurance has been purchased as the Company is no longer underwriting.

	1998		1997	
	Gross £	Reinsurance £	Gross £	Reinsurance £
Gross premiums written	<u>£(21,603)</u>	<u>-</u>	<u>£1,055,728</u>	<u>£342,160</u>

(ii) Other Contributions

	1998	1997
	£	£
Supplementary calls	(2,709)	2,785,111
Release contributions	5,018	(363,666)
	<u>£2,309</u>	<u>£2,421,445</u>

3. CLAIMS INCURRED NET OF REINSURANCE

	Gross £	Reinsurance Recoveries £	Reinsurance Reinstatements £	Net £
<b>1998</b>				
Claims paid	775,900	(606,778)	89,620	258,742
Claims handling expenses paid	316,530	-	-	316,530
	<u>1,092,430</u>	<u>(606,778)</u>	<u>89,620</u>	<u>575,272</u>
Outstanding claims carried forward	3,332,423	(637,763)	180,070	2,874,730
Outstanding claims brought forward	4,430,861	(904,253)	224,768	3,751,376
(Decrease)/increase	(1,098,438)	266,490	(44,698)	(876,646)
Claims incurred	<u>£81,897</u>	<u>£(340,288)</u>	<u>£44,922</u>	<u>£(301,374)</u>
<b>1997</b>				
Claims paid	935,021	(493,467)	58,984	500,538
Claims handling expenses paid	398,186	-	-	398,186
	<u>1,333,207</u>	<u>(493,467)</u>	<u>58,984</u>	<u>898,724</u>
Outstanding claims carried forward	4,430,861	(904,253)	224,768	3,751,376
Outstanding claims brought forward	3,068,071	(1,068,742)	138,919	2,138,248
Increase	<u>1,362,790</u>	<u>164,489</u>	<u>85,849</u>	<u>1,613,128</u>
Claims incurred	<u>£2,695,997</u>	<u>£(328,978)</u>	<u>£144,833</u>	<u>£2,511,852</u>

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

NOTES TO THE ACCOUNTS (Continued)  
for the year ended 28th February 1998

3. CLAIMS INCURRED NET OF REINSURANCE (Continued)

The claims incurred figure of £301,374 (1997 £2,511,852) relates to the difference between the loss provision made at the beginning of the year for outstanding claims incurred in previous years, and the payments made during the year and the loss provision shown at the end of the year in respect of such outstanding claims.

4. MANAGERS' REMUNERATION

Managers' remuneration covers the cost of providing offices, staff and administration expenses as The Structural Engineers' Professional Indemnity Association Limited has no employees other than the Committee.

The basis of the remuneration as set out in the Management Agreement was re-negotiated between the Committee and the Managers. Under the new agreement, the Managers will not charge the fee of 2% of the funds available as at 1st March 1998 and annually thereafter, nor the claims handling fee in respect of the number of open files handled during each financial year. Instead, the management charge will be calculated on a time basis, with charge out rates being revised annually by no more than the retail price index.

The Managers also received the sum of £15,885 (1997 £15,885) by way of charges in respect of the provision of a Bond of £353,000 in favour of the Company, to enable it to meet Treasury solvency requirements.

Indemnity Insurance Services Limited, a former subsidiary of Indemnity Management Services Limited, received commission of £ Nil (1997 £575) in relation to the placement of the Directors and Officers insurance for the Committee.

Another subsidiary, Collegiate Insurance Brokers Limited (formally Mutual Insurance Services Limited) earned commission totalling £3,023 (1997 £2,780).

5. ADMINISTRATIVE EXPENSES

	1998	1997
	£	£
Committee members' remuneration (see Note 6)	13,955	25,610
Auditors' remuneration		
- for audit services	7,650	6,000
- for non-audit services	1,500	3,000
Legal and professional fees	7,649	89,551
Directors and officers insurance	5,238	5,894
Regulatory fees	(1,805)	(16,694)
Bond charges	15,885	15,885
Exceptional bad debts and costs of collection	87,905	295,643
Other administrative expenses	3,707	24,244
	-----	-----
	£141,684	£449,133
	=====	=====

Legal costs totalling £93,209 (1997 £ Nil) were incurred during the year in relation to debt collection, and have been charged against the legal fees accrued last year.

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

NOTES TO THE ACCOUNTS (Continued)  
for the year ended 28th February 1998

6. COMMITTEE MEMBERS' INFORMATION

(i) Committee Members' Remuneration

The remuneration of the previous and current Chairman was £2,500 and £3,250 respectively (1997 £5,000 and £ Nil). The remuneration of the other individual Committee Members was less than £5,000 in both 1998 and 1997.

	1998	1997
	£	£
Committee Members' remuneration consists of:		
Committee meetings	13,955	19,110
Sub-Committee meetings		6,500
	<u>£13,955</u>	<u>£25,610</u>

(ii) Related Party Transactions

The net amount of claims made against the Company by the current and former engineering Members of the Committee totalled £45,400 and £83,500 respectively (1997 £41,839 and £105,805 respectively).

7. TAXATION ON INVESTMENT INCOME

	£	£
Corporation tax on investment income	6,264	10,105
Deferred taxation (see Note 11)	-	(717)
	<u>£6,264</u>	<u>£9,388</u>

8. INVESTMENTS

	£	£
Government fixed interest	-	60,701
Other listed fixed interest securities	-	225,981
Cash and cash deposits	-	4,902
	<u>-</u>	<u>£291,584</u>

Newton Investment Managers are no longer retained as investment advisers because the investment portfolio was liquidated to meet the increased need for cash.

9. DEBTORS

	£	£
(i) Debtors arising out of reinsurance operations		
Reinsurance recoveries receivable	<u>£220,322</u>	<u>£105,772</u>
(ii) Amounts falling due within one year		
Outstanding contributions	106,861	167,356
Supplementary Calls	1,092,562	471,623
	<u>1,199,423</u>	<u>638,979</u>
(iii) Amounts falling due after more than one year		
Supplementary Calls	1,657,390	2,837,852
Amounts owed by policyholders	<u>£2,856,813</u>	<u>£3,476,831</u>

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

NOTES TO THE ACCOUNTS (Continued)  
for the year ended 28th February 1998

10. CREDITORS: Amounts falling due within one year

	1998 £	1997 £
(i) Arising out of reinsurance operations		
Reinsurance premiums payable	-	5,212
Reinsurance reinstatements payable	51,727	21,990
	<u>£51,727</u>	<u>£27,202</u>
(ii) Arising out of direct insurance operations		
Claims creditors	£55,501	£68,358
(iii) Other creditors including taxation and social security		
Amounts owed to Managers	81,741	107,633
United Kingdom taxation payable	5,717	10,105
Accruals and deferred income	44,862	130,419
	<u>£132,320</u>	<u>£248,157</u>

11. PROVISION FOR OTHER RISKS AND CHARGES

	£	£
Deferred taxation due to short term timing differences provided in full	£ Nil	£ Nil
Deferred taxation movement for the year is:		
Balance of provision at 1st March	-	717
Current year charge (see Note 7)	-	(717)
Balance of provision at 28th February	<u>£ Nil</u>	<u>£ Nil</u>

12. CONTINGENCY RESERVE

Should any surplus exist at the date of closure of a Policy Year, then an amount is transferred to a Contingency Reserve. Surpluses arising on the Closed Years' Fund are also transferred to a Contingency Reserve which exist for the purpose of meeting any deficit which may arise. Transfers were made last year from open years to the Contingency Reserve which was used to meet the deterioration in claims in respect of the 1991/92 Closed Year.

	1998 £	1997 £
Balance at 1st March	-	6,506
Investment income allocated	268	
Transfer for the year	(6,774)	
	<u>-----</u>	<u>(6,506)</u>
Balance at 28th February	<u>£ -</u>	<u>£ -</u>

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

NOTES TO THE ACCOUNTS (Continued)  
for the year ended 28th February 1998

13.	<b>BALANCE OF FUND AVAILABLE TO MEET KNOWN AND FUTURE CLAIMS</b>		
		1998	1997
		£	£
	<b>Contingency reserve</b>		
	Balance at 1st March	-	6,506
	Movement in the year	-	(6,506)
		-----	-----
	Balance at 28th February	£ -	£ -
		=====	=====
	<b>Open policy years</b>		
	Balance at 1st March	-	78,937
	Movement in the year	-	(78,937)
		-----	-----
	Balance at 28th February	£ -	£ -
		=====	=====
	Balance of fund available to meet known and future claims	£ -	£ -
		=====	=====

14. **MEMBERS' GUARANTEES**

The Structural Engineers' Professional Indemnity Association Limited is limited by guarantee of up to £1 per Member.

15. **ESTIMATED OUTSTANDING CLAIMS**

Significant delays may occur before claims are settled and accordingly a substantial measure of experience and judgement is required in assessing the ultimate cost, which cannot be known with certainty at the balance sheet date. At the balance sheet date the Company has been notified of contingent claims against Members which, in the Managers' opinion, will settle at an estimated net cost of £1,140,591 (1997 £1,079,165).

In arriving at the Policy Year Funds Statement balances, further allowances have been made of £1,387,760 (1997 £2,111,825) for estimated future losses and £346,379 for estimated future claims handling costs (1997 £560,386) producing the uplifted figures of £2,874,730 (1997 £3,751,376).

16. **TECHNICAL PROVISIONS**

	Gross £	Reinsurance Recoveries £	Reinsurance Reinstatements £	Net £
<b>1998</b>				
Notified outstanding claims	1,371,195	(311,549)	80,945	1,140,591
Estimated future losses	1,614,850	(326,214)	99,124	1,387,760
Claims handling costs	346,379	-	-	346,379
	-----	-----	-----	-----
	£3,332,424	£(637,763)	£180,069	£2,874,730
	=====	=====	=====	=====
<b>1997</b>				
Notified outstanding claims	1,502,477	(516,034)	92,722	1,079,165
Estimated future losses	2,367,998	(388,219)	132,046	2,111,825
Claims handling costs	560,386	-	-	560,386
	-----	-----	-----	-----
	£4,430,861	£(904,253)	£224,768	£3,751,376
	=====	=====	=====	=====

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

NOTES TO THE ACCOUNTS (Continued)  
for the year ended 28th February 1998

17. MOVEMENT IN CASH AND PORTFOLIO INVESTMENTS

	At 1st March 1997 £	Cash Flows £	Changes to market value £	At 28th February 1998 £
Cash at bank and in hand	135,283	(101,499)	-	33,784
Cash and cash deposits	4,902	(4,902)	-	-
	-----	-----	-----	-----
Fixed income securities	140,185	(106,401)	-	33,784
	286,682	(285,347)	(1,335)	-
	-----	-----	-----	-----
	£426,867	£(391,748)	£(1,335)	£33,784
	=====	=====	=====	=====

	At 1st March 1996 £	Cash Flows £	Changes to market value £	At 28th February 1997 £
Cash at bank and in hand	130,507	4,776	-	135,283
Cash and cash deposits	171,334	(166,432)	-	4,902
	-----	-----	-----	-----
Fixed income securities	301,841	(161,656)	-	140,185
	198,053	87,941	688	286,682
	-----	-----	-----	-----
	£499,894	£(73,715)	£688	£426,867
	=====	=====	=====	=====

18. RECONCILIATION OF BALANCE ON TECHNICAL ACCOUNT FOR GENERAL BUSINESS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES.

	1998 £	1997 £
Balance on technical account	-	(76,055)
Investment income	(19,836)	(39,095)
Decrease/(increase) in debtors	750,315	(1,534,940)
(Decrease)/increase in creditors	(1,153,517)	1,558,834
	-----	-----
	£(423,038)	£(91,256)
	=====	=====

THE STRUCTURAL ENGINEERS' PROFESSIONAL INDEMNITY ASSOCIATION LIMITED

NOTES TO THE ACCOUNTS (Continued)  
for the year ended 28th February 1998

19. POLICY YEAR FUNDS STATEMENT

	Open Year 1996/97	Open Year 1995/96	Open Year 1994/95	Open Year 1993/94	Open Year 1992/93	Closed 1991/92	Contingency Reserve	Total
	£	£	£	£	£	£	£	£
Contributions less expenses	355,300	845,761	977,923	688,529	503,012	85,047	-	3,455,572
Investment income allocated	16,931	20,268	34,290	17,011	49,400	28,716	6,774	173,390
Net claims paid	(161,560)	(557,385)	(934,975)	(741,671)	(464,325)	(95,796)	-	(2,955,712)
Balance to meet outstanding claims	210,671	308,644	77,238	(36,131)	88,087	17,967	6,774	673,250
Outstanding claims and liabilities	(541,177)	(447,218)	(144,514)	(141,478)	(121,042)	(91,541)	-	(1,486,970)
Estimated future losses from notified Contingent claims	(660,170)	(464,384)	(117,775)	(64,989)	(69,186)	(11,255)	-	(1,387,760)
	(990,676)	(602,958)	(185,051)	(242,598)	(102,141)	(84,830)	6,774	(2,201,480)
Supplementary call provision	799,100	639,410	410,320	278,330	74,320	-	-	2,201,480
	(191,576)	36,452	225,269	35,732	(27,821)	(84,830)	6,774	-
Net transfers (to)/from Contingency Reserve As at 1st March 1997	886	14,795	(21,515)	(25,445)	(12,895)	50,948	(6,774)	-
Transfers (to)/from Contingency Reserve As at 28th February 1998	-	-	(23,595)	(10,287)	-	33,882	-	-
	£(190,690)	£51,247	£180,159	£ -	£(40,716)	£ -	£ -	£ -