

HIGHWAY INSURANCE COMPANY LIMITED

FINANCIAL STATEMENTS

31ST DECEMBER 2002

COMPANY REGISTRATION NUMBER: 3730662



DIRECTORS' REPORT

The directors are pleased to submit their report and the audited financial statements for the year ended 31st December 2002.

REVIEW OF BUSINESS

The Company is an insurance company regulated by the Financial Services Authority.

RESULTS AND DIVIDEND

The profit for the financial period amounted to £8,844,000 (2001: profit £3,298,000). The directors do not recommend the payment of a dividend (2001: £Nil).

DIRECTORS

The following have been directors from 1st January 2002 to the date of this report, unless otherwise stated:

| | | |
|-----------------|------------|----------------------------------|
| The Lord Poole | (Chairman) | (Resigned on 26th March 2002) |
| * R G Dunlop | (Chairman) | (Appointed 6th February 2003) |
| G Avenel | | (Resigned on 6th February 2003) |
| S R Davies | | |
| P M J Fraser | | |
| * A J Gibson | | |
| * C D Hill | | |
| R B M Hurley | | (Resigned on 13th January 2002) |
| Mrs J A Kellie | | |
| N J Lee | | (Resigned on 3rd October 2002) |
| Q J Lovis | | (Resigned on 13th February 2003) |
| D W Murray | | |
| * I W J Patrick | | |
| J M Stoker | | |

* Director of the ultimate holding company, Highway Insurance Holdings PLC.

The interests of the directors at 31st December 2002 in the share capital of the ultimate holding company, with the exception of directors who were also directors of the ultimate holding company, whose interests are shown in the accounts of that company, were as follows:

| | At 31st December 2002 Ordinary 20p shares in Highway Insurance Holdings PLC | | At 1st January 2002 or date of appointment if later Ordinary 20p shares in Highway Insurance Holdings PLC | |
|----------------|---|-----------|---|---------|
| | Holding | Options | Holding | Options |
| G Avenel | - | - | - | - |
| S R Davies | 2,511 | 1,500,000 | 2,511 | - |
| P M J Fraser | - | 1,500,000 | - | - |
| Mrs J A Kellie | - | - | - | - |
| Q J Lovis | 35,773 | - | 29,356 | - |
| D W Murray | - | - | - | - |
| J M Stoker | 120,946 | - | 18,250 | - |

Awards of 385,492, 38,549 and 96,373 incentive "C" shares of £1 each in Highway Group Services PLC were made to Mr Q J Lovis, Mr D W Murray and Mr S R Davies respectively, in November 1996 under the Highway Group Services PLC Restricted Share Scheme. The awards to Mr Q J Lovis and Mr D W Murray remained outstanding at 31st December 2002. The award to Mr S R Davies was waived on the 6th September 2002.

DIRECTORS' REPORT

AUDITORS

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to be 'P. Lampshire', with a long, wavy horizontal line extending to the right.

Philip Lampshire
Secretary

Highway House
171 Kings Road
Brentwood
Essex CM14 4EJ
31st March 2003

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 consider that in preparing the financial statements on pages 4 to 13, 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. These accounts have been prepared on a going concern basis.

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.

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF HIGHWAY INSURANCE COMPANY LIMITED

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

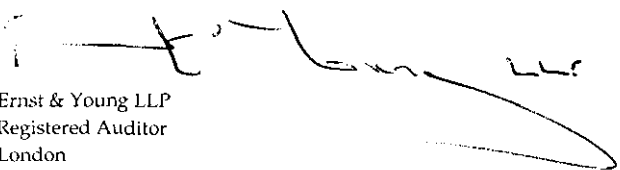
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31st December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London
31st March 2003

Technical Account

| | Notes | 2002 £ 000's | 2001 £ 000's |
|---|-------|-----------------|-----------------|
| Gross premiums written - continuing business | 3 | 95,164 | 77,707 |
| - discontinued operations | 3 | 547 | 5,156 |
| Outward reinsurance premiums | | (5,972) | (5,517) |
| Net premiums written | | 89,739 | 77,346 |
| Change in gross unearned premiums | | (11,665) | (9,513) |
| Change in outward reinsurance premiums | | 15 | 622 |
| Change in net unearned premiums | | (11,650) | (8,891) |
| Net earned premiums | | 78,089 | 68,455 |
| Allocated investment return transferred from the non-technical account | | 6,717 | 6,115 |
| Other technical income | | 825 | - |
| Total technical income | | 85,631 | 74,570 |
| Gross claims paid | | (39,032) | (31,533) |
| Reinsurers's share | | 259 | 10 |
| Net paid claims | | (38,773) | (31,523) |
| Change in claims provision | | (34,633) | (21,265) |
| Reinsurers' share | | 16,659 | (474) |
| Change in the provision for claims | | (17,974) | (21,739) |
| Claims incurred, net of reinsurance | | (56,747) | (53,262) |
| Net operating expenses | 5 | (15,159) | (15,268) |
| Change in the equalisation provision | | 72 | (72) |
| Total technical charges | | (71,834) | (68,602) |
| Balance on technical account | | 13,797 | 5,968 |
| Attributable to: | | | |
| Continuing operations | | 16,028 | 4,518 |
| Discontinued operations | | (2,231) | 1,450 |
| | | 13,797 | 5,968 |

Non-Technical Account

| | Notes | 2002 £ 000's | 2001 £ 000's |
|---|-------|-----------------|-----------------|
| Balance on technical account | | 13,797 | 5,968 |
| Net investment return on a longer term rate of return basis | | | |
| Investment income | 6 | 5,569 | 5,215 |
| Short term fluctuation in investment returns | 6 | 1,148 | 804 |
| Net longer term investment return transferred to the technical account | 6 | (6,717) | (6,115) |
| Total income | | <u>13,797</u> | <u>5,872</u> |
| Other charges - expenses | | 160 | 181 |
| Operating profit based on longer term investment return | | <u>13,637</u> | <u>5,691</u> |
| Short term fluctuation in investment returns | 6 | (1,148) | (804) |
| Profit on ordinary activities before taxation | | 12,489 | 4,887 |
| Taxation on profit on ordinary activities | 7 | <u>(3,645)</u> | <u>(1,589)</u> |
| Retained profit for the financial year | 16 | <u>8,844</u> | <u>3,298</u> |

Statement of total recognised gains and losses for the year ended 31st December 2002

There were no recognised gains or losses other than the profit attributable to the shareholder of £8,844,000 (2001: £3,298,000) for the year ended 31st December 2002.

Balance Sheet at 31st December 2002

| | Notes | 2002 £ 000's | 2001 £ 000's |
|---|-------|----------------------------|----------------------------|
| Assets | | | |
| Investments | | | |
| Other financial investments | 9 | 140,255 | 99,955 |
| | | <hr/> | <hr/> |
| | | 140,255 | 99,955 |
| | | <hr/> | <hr/> |
| Reinsurers' share of technical provisions | | | |
| Provision for unearned reinsurance premiums | | 3,289 | 3,274 |
| Claims outstanding | | 19,300 | 2,641 |
| | | <hr/> | <hr/> |
| | | 22,589 | 5,915 |
| | | <hr/> | <hr/> |
| Debtors | | | |
| Debtors arising out of direct insurance operations - intermediaries | | 23,579 | 22,666 |
| Debtors arising out of reinsurance operations - intermediaries | | 84 | 416 |
| Other debtors - amounts falling due within one year | 10 | 20,179 | 1,720 |
| Other debtors - amounts falling due after more than one year | 11 | 10,773 | - |
| | | <hr/> | <hr/> |
| | | 54,615 | 24,802 |
| | | <hr/> | <hr/> |
| Other assets | | | |
| Tangible assets | 8 | 5,211 | - |
| Cash at bank and in hand | | 1,188 | 8,057 |
| | | <hr/> | <hr/> |
| Prepayments and accrued income | | - | 82 |
| Deferred acquisition costs | | 12,100 | 9,119 |
| | | <hr/> | <hr/> |
| Total assets | | <hr/> 235,958 <hr/> | <hr/> 147,930 <hr/> |

Balance Sheet at 31st December 2002

| | Notes | 2002 £ 000's | 2001 £ 000's |
|--|-------|-----------------|-----------------|
| Liabilities | | | |
| Capital and reserves | | | |
| Called-up share capital | 15 | 55,000 | 45,000 |
| Profit and loss account | 16 | 16,226 | 7,382 |
| | | <hr/> | <hr/> |
| Equity shareholders funds | 16 | 71,226 | 52,382 |
| | | <hr/> | <hr/> |
| Technical provisions | | | |
| Provision for unearned premium | | 53,131 | 41,466 |
| Claims outstanding | | 81,598 | 46,102 |
| Equalisation provision | | - | 72 |
| | | <hr/> | <hr/> |
| | | 134,729 | 87,640 |
| | | <hr/> | <hr/> |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 10,012 | 333 |
| Creditors arising out of reinsurance operations | | 2,040 | - |
| Other creditors amounts falling due within one year | 13 | 16,129 | 2,393 |
| | | <hr/> | <hr/> |
| | | 28,181 | 2,726 |
| | | <hr/> | <hr/> |
| Accruals and deferred income | | 1,822 | 5,182 |
| | | <hr/> | <hr/> |
| Total liabilities | | 235,958 | 147,930 |
| | | <hr/> | <hr/> |

Approved by the board of directors and signed on its behalf on 31st March 2003 by:



A. J. Gibson
Director

Notes to the financial statements (continued)

1. Accounting policies

Accounting convention

The audited financial statements have been prepared in accordance with the special provisions relating to insurance companies in Section 255A of, and Schedule 9A to, the Companies Act 1985. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998 have been adopted.

Cash Flow Statement

In accordance with Financial Reporting Standard Number 1, Cash Flow Statements, the Company is not required to prepare a cash flow statement because more than 90% of the voting rights of the Company are held within the Group and the Group's consolidated financial statements are publicly available.

Premiums

Gross written premiums represent premiums on business incepting during the period together with adjustments to premiums written in previous periods.

Outward reinsurance premiums are accounted for in the same period as the premiums for the direct or inward reinsurance to which they relate.

Unearned premiums provision

For business accounted for on an annual basis, written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on a daily pro rata basis.

Claims

Claims incurred include all losses occurring during the year and related reinsurance recoveries, whether reported or not, related handling costs and any adjustments to claims outstanding in previous years

Technical provisions - claims outstanding

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each underwriting year, based upon the observed development of earlier years and expected loss ratios. Although the estimate of net outstanding claims is considered to be fair and reasonable, it is implicit in the estimation procedure that ultimate liabilities will be at variance from the amount provided. Any difference between provisions at the balance sheet date and settlements and provisions in the following year is included in the underwriting result for that year.

The main assumptions underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in future, for example to reflect public attitudes to claiming or varying levels of claims inflation. The approach adopted takes into account, inter alia, the nature and materiality of the business and the type of data available.

Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

Unexpired risk provision

A provision for unexpired risks is made when it is anticipated that unearned premiums will be insufficient to meet future claims and claims settlement expenses of business in force at the end of the period.

Equalisation provision

An equalisation provision was established at 31 December 2001 and calculated in accordance with the requirements of Chapter 6 of the Interim Prudential Sourcebook for Insurers. This has subsequently been released in 2002.

Notes to the financial statements (continued)

Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets on a straight line basis over their estimated useful lives as follows:

Computer software

10 years

The computer and other equipment costs relate to the expenditure incurred in the development and implementation of the GIOS system, this system represents the core operating platform of the business going forward. The company holds a 10-year license for the system which is expected to have a useful economic life of at least 10 years.

Acquisition Costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Investment Income

Net investment return comprises investment income, unrealised gains and losses on investment, investment expenses and interest payable. The longer term return on investments which support the underwriting activities, initially allocated to the non-technical account, is transferred from that account to the technical account. The actual net investment return from other activities is included within the non-technical account as part of operating profit. The difference between the longer term return allocated to the technical account and the actual return achieved on the underlying assets is recorded in the non-technical account as 'Short term fluctuations in investment return'.

Investments

Financial investments are valued at mid-market price on 31st December.

2. Segmental analysis

The Company's business has all been underwritten in the EU which has been treated as one geographical segment. Segmental information in the format required by the Companies Act 1985, so far as available, is as follows:

| | Gross premiums earned | | Gross claims incurred | |
|-------------------------------|--------------------------|-----------------|--------------------------|-----------------|
| | 2002 £ 000's | 2001 £ 000's | 2002 £ 000's | 2001 £ 000's |
| Motor - third party liability | 49,105 | 42,228 | 43,315 | 30,399 |
| Motor - other classes | 33,398 | 29,031 | 29,641 | 20,897 |
| Property | 1,543 | 2,091 | 709 | 1,502 |
| Total | 84,046 | 73,350 | 73,665 | 52,798 |

| | Net operating expenses | | Reinsurance balance | |
|-------------------------------|---------------------------|-----------------|------------------------|-----------------|
| | 2002 £ 000's | 2001 £ 000's | 2002 £ 000's | 2001 £ 000's |
| Motor - third party liability | 8,684 | 8,775 | 6,699 | (3,092) |
| Motor - other classes | 5,915 | 6,034 | 4,374 | (2,126) |
| Property | 560 | 459 | (112) | (141) |
| Total | 15,159 | 15,268 | 10,961 | (5,359) |

Notes to the financial statements (continued)

3. Continuing and discontinued operations

The Company ceased writing business for its French and Household operations on 31 December 2001. The breakdown of the principal technical account figures between these discontinued operations and the Company's continuing operations is as follows:

| | Continuing £ 000's | Discontinued £ 000's | 2002 Total £ 000's | Continuing £ 000's | Discontinued £ 000's | 2001 Total £ 000's |
|--|-----------------------|-------------------------|--------------------------|-----------------------|-------------------------|--------------------------|
| Gross premiums written | 95,164 | 547 | 95,711 | 77,707 | 5,156 | 82,863 |
| Earned premiums, net of reinsurance | 74,625 | 3,464 | 78,089 | 63,972 | 4,483 | 68,455 |
| Allocated investment return | 6,418 | 299 | 6,717 | 5,715 | 400 | 6,115 |
| Other technical income | 825 | - | 825 | - | - | - |
| Claims incurred, net of reinsurance | (51,353) | (5,394) | (56,747) | (50,901) | (2,361) | (53,262) |
| Net operating expenses | (14,487) | (672) | (15,159) | (14,268) | (1,000) | (15,268) |
| Change in equalisation provisor | - | 72 | 72 | - | (72) | (72) |
| Balance on technical account | 16,028 | (2,231) | 13,797 | 4,518 | 1,450 | 5,968 |

4. Directors and employees

The Company has no employees.

Directors fees were as follows:

| | | |
|------|-----------------|-----------------|
| Fees | 2002 £ 000's | 2001 £ 000's |
| | 73 | 85 |

The emoluments of the highest paid director were as follows:

| | | |
|--|-----------------|-----------------|
| Emoluments excluding pension contributions | 2002 £ 000's | 2001 £ 000's |
| | 20 | 20 |

5. Net operating expenses - technical account

| | | |
|--|-----------------|-----------------|
| | 2002 £ 000's | 2001 £ 000's |
| Acquisition costs | 14,424 | 13,376 |
| Movement in deferred acquisition costs | (2,981) | (1,561) |
| Administrative expenses | 3,716 | 3,453 |

| | | |
|--|-----------------|-----------------|
| | 2002 £ 000's | 2001 £ 000's |
| | 15,159 | 15,268 |

Operating profit is stated after charging the following items:

| | | |
|--|-----------------|-----------------|
| Depreciation - after recharges to syndicates | 2002 £ 000's | 2001 £ 000's |
| Auditors' remuneration: | | |
| Audit fees | 46 | 51 |
| Other services | 45 | 54 |

Notes to the financial statements (continued)

6. Investment return

| | 2002 £ 000's | 2001 £ 000's |
|---|-----------------|-----------------|
| Investment income | 3,897 | 5,908 |
| Unrealised gains/(losses) on investments | 578 | (395) |
| Gains on realisation of investments | 2,131 | 77 |
| | <u>6,606</u> | <u>5,590</u> |
| Losses on realisation of investments | (1,037) | (375) |
| Total investment return | <u>5,569</u> | <u>5,215</u> |
| | 2002 £ 000's | 2001 £ 000's |
| Underwriting investment income on a long term rate of return basis transferred to technical account | 6,717 | 6,019 |
| Short term fluctuation in investment returns | (1,148) | (804) |
| | <u>5,569</u> | <u>5,215</u> |

The transfer to the technical account represents the estimated long term rate of return of 5.5% (2001: 6.5%) applied to the investment assets and solvency capital held by the Company's insurance business.

7. Taxation on profit on ordinary activities

a) UK corporation tax:

| | 2002 £ 000's | 2001 £ 000's |
|---|-----------------|-----------------|
| UK Corporation tax at 30% (2001 - 30%): | | |
| Current tax on profits for the year | (5,918) | (1,557) |
| Adjustments in respect of prior years | <u>(8,500)</u> | <u>(32)</u> |
| Current tax charge | <u>(14,418)</u> | <u>(1,589)</u> |
| Current year | 2,221 | - |
| Adjustments in respect of prior years | <u>8,552</u> | <u>-</u> |
| Deferred tax charge | <u>10,773</u> | <u>-</u> |
| | <u>(3,645)</u> | <u>(1,589)</u> |

b) Factors affecting tax charge for the period:

| | 2002 £ 000's | 2001 £ 000's |
|---|-----------------|-----------------|
| Profit on ordinary activities before tax | 12,489 | 4,887 |
| Profit on ordinary activities before tax @ 30% | (3,747) | (1,466) |
| Effects of: | | |
| Adjustments to tax charge in respect of prior years | (8,500) | (32) |
| Adjustments relating to disallowable expenses | (6) | (30) |
| Non-taxable income | 23 | - |
| Adjustment for disclaimer of reserves | (2,188) | - |
| Adjustment for discounting | - | (61) |
| Current tax charge | <u>(14,418)</u> | <u>(1,589)</u> |

8. Tangible assets - computer and other equipment

| | £ 000's |
|---------------------------------|--------------|
| Company | |
| Cost | |
| At 1st January 2002 | - |
| Additions | 5,880 |
| At 31st December 2002 | <u>5,880</u> |
| Accumulated depreciation | |
| At 1st January 2002 | - |
| Charge for the year | 669 |
| At 31st December 2002 | <u>669</u> |
| Net book value | |
| At 31st December 2002 | <u>5,211</u> |
| At 31st December 2001 | - |

Notes to the financial statements (continued)

9. Investments

| | 2002 £ 000's | 2001 £ 000's |
|---|-----------------|-----------------|
| Debt securities and other fixed income securities | 61,631 | 83,772 |
| Deposits with credit institutions | 78,624 | 16,183 |
| | <u>140,255</u> | <u>99,955</u> |
| Listed investment at market value | 61,631 | 83,772 |
| Value of investments at 1st January | 99,955 | 76,356 |
| Additions at cost | 524,992 | 284,635 |
| Sales at cost | (484,863) | (260,077) |
| Unrealised appreciation/(depreciation) | 171 | (959) |
| Value of investments held at 31st December | <u>140,255</u> | <u>99,955</u> |

The historical costs of investments at the 31st December 2002 was £139,678,000 (2001: £100,732,000)

10. Debtors - amounts falling due within one year

| | 2002 £ 000's | 2001 £ 000's |
|-----------------------------|-----------------|-----------------|
| Amounts due from syndicates | 18,579 | - |
| Amounts due from coinsurer | 825 | - |
| Tax recoverable | 383 | 320 |
| Other debtors | 392 | 1,400 |
| | <u>20,179</u> | <u>1,720</u> |

11. Debtors - amounts falling due after more than one year

| | 2002 £ 000's | 2001 £ 000's |
|--------------|-----------------|-----------------|
| Deferred tax | 10,773 | - |
| | <u>10,773</u> | <u>-</u> |

12. Deferred tax asset

| | 2002 £ 000's | 2001 £ 000's |
|--|-----------------|-----------------|
| Accelerated capital allowances | 32 | - |
| Trading losses available for carry forward | 10,741 | - |
| | <u>10,773</u> | <u>-</u> |
| | | £ 000's |
| At 1 January 2002 | | - |
| Deferred tax credit in the profit and loss account | | 10,773 |
| At 31 December 2002 | | <u>10,773</u> |

The Company has no unprovided deferred tax liabilities

13. Creditors - amounts falling due within one year

| | 2002 £ 000's | 2001 £ 000's |
|--|-----------------|-----------------|
| Insurance premium tax | 1,449 | 727 |
| Corporation tax | 5,369 | 736 |
| Amounts due to Highway Group Services PLC | 1,723 | 225 |
| Amounts due to Ockham Personal Investment Agency Limited | - | 78 |
| Amounts due to Ockham Corporate Limited | 7,588 | - |
| Other creditors | - | 627 |
| | <u>16,129</u> | <u>2,393</u> |

Notes to the financial statements (continued)

14. Claims outstanding

Included within claims incurred in the technical account is an amount of £3,583,000 (2001: £3,436,000) being the difference between the provision for claims outstanding at the beginning of the year less payments made during the year on account of claims incurred in previous years and the provision for claims outstanding at the end of the year for such claims. Of this amount £2,587,000 (2001: £2,827,000) relates to motor business and £996,000 (2001: £609,000) relates to property business.

15. Called-up share capital

| | | |
|----------------------------------|---------|---------|
| Authorised: | £ 000's | £ 000's |
| Ordinary £1 shares | 75,000 | 75,000 |
| | <hr/> | <hr/> |
| Allotted, issued and fully paid: | | |
| Ordinary £1 shares | | |
| At 1st January 2002 | 45,000 | 45,000 |
| On 16th July 2002 | 10,000 | - |
| | <hr/> | <hr/> |
| At 31st December 2002 | 55,000 | 45,000 |
| | <hr/> | <hr/> |

On the 16th January 2003 the Company issued 20,000,000 ordinary £1 shares to its immediate holding company Highway Group Services Limited.

16. Reconciliation of movements in shareholder's funds

| | Share Capital £ 000's | Profit and loss account £ 000's | Total £ 000's |
|--|-----------------------------|---------------------------------------|------------------|
| At 1st January 2002 | 45,000 | 7,382 | 52,382 |
| Retained profit for the financial year | - | 8,844 | 8,844 |
| Issue of share capital | 10,000 | - | 10,000 |
| | <hr/> | <hr/> | <hr/> |
| At 31st December 2002 | 55,000 | 16,226 | 71,226 |
| | <hr/> | <hr/> | <hr/> |

17. Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard 8(3) from disclosure of related party transactions with other entities included in the consolidated financial statements of Highway Insurance Holdings PLC

18. Ultimate and immediate parent undertakings

The Company's immediate parent undertaking is Highway Group Services PLC.

The ultimate holding company, and the largest holding company for which group accounts are prepared, is Highway Insurance Holdings PLC, a company registered in England and Wales. Copies of that company's financial statements may be obtained from Highway House, 171 Kings Road, Brentwood, Essex CM14 4EJ.