

CAVELL INSURANCE COMPANY LIMITED

**REPORT AND FINANCIAL STATEMENTS
2004**

Company Registration No. 157661



CAVELL INSURANCE COMPANY LIMITED

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CAVELL INSURANCE COMPANY LIMITED

Directors and Management

Directors

Mr R L Barclay
Mr P A G Green
Mr M P Patel
Mr K E Randall

Auditors

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Report of the Directors

The Directors present their report and the financial statements of the Company for the year ended 31 December 2004.

Principal activity and business review

Having ceased to write new business, the Company's authority to accept contracts of insurance was withdrawn by the Department of Trade and Industry on 23 May 1995.

The principal activity of the Company is the run-off of the insurance and reinsurance business underwritten. The business was predominantly underwritten in the UK and through branches in Canada, Australia and New Zealand.

Acquisition of subsidiary undertaking

In April 2004 the Company purchased 100% of the share capital of Cirrus Reinsurance Company Limited AS. Details of this transaction are provided in note 13 to the Financial Statements.

Reduction of share capital

During the year the Company purchased and cancelled 20,076,000 of its own shares for £1 each.

Post balance sheet events

Details of post balance sheet events are disclosed in note 21 to the financial statements on page 20.

Results and dividends

After allowing for taxation, there was a profit on ordinary activities after taxation for the year of £4,738,000 (2003 - £3,497,000). The Directors do not recommend the payment of a dividend for the year (2003 - Nil).

Auditors

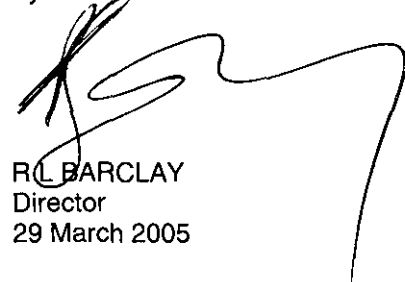
A resolution to reappoint Ernst & Young LLP as auditors will be proposed at the forthcoming Annual General Meeting.

Directors

The names of the Directors at the date of this Report appear on page 2. Mr S Patel resigned on 31 March 2004.

According to the register kept for the purpose of the Companies Act 1985, no Director has any beneficial interest or option to subscribe for shares in the Company.

By Order of the Board



R L BARCLAY
Director
29 March 2005

Statement of Directors' Responsibilities in respect of the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements the Directors are required to:

- . select suitable accounting policies and then apply them consistently;
- . make judgements and estimates that are reasonable and prudent;
- . state whether applicable accounting standards have been followed; and
- . 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 which disclose with reasonable accuracy at any time the financial position of the Company, and to enable them to ensure that the financial statements 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.

Independent Auditors' Report to the Members of Cavell Insurance Company Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related notes 1 to 22. 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 the 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.

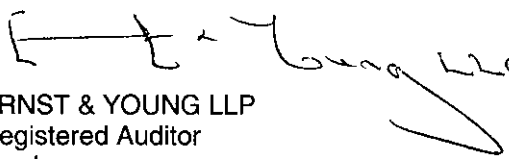
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the level of uncertainty relating to the provision for outstanding claims and related reinsurance recoveries. The ultimate liability will vary as a result of subsequent information and events, whether the Company continues to run-off its liabilities or implements a Scheme of Arrangement, and these may result in significant adjustments to the amounts provided. Details of the circumstances relating to this fundamental uncertainty are described in Note 3. 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 31 December 2004 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

29 March 2005

CAVELL INSURANCE COMPANY LIMITED

Profit and Loss Account for the year ended 31 December 2004

	Notes	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Technical account - General business					
<i>Discontinued operations</i>					
Gross premiums written			26		163
Outwards reinsurance premiums			7		(128)
Earned premiums, net of reinsurance			<u>33</u>		<u>35</u>
Claims paid					
Gross amount		(8,227)		(5,006)	
Reinsurers' share		<u>940</u>		<u>1,686</u>	
Net claims paid		<u>(7,287)</u>		<u>(3,320)</u>	
Change in the provision for claims					
Gross amount		7,039		7,537	
Reinsurers' share		<u>(2,027)</u>		<u>(1,800)</u>	
Change in the net provision for claims		<u>5,012</u>		<u>5,737</u>	
Claims incurred, net of reinsurance	3	(2,275)		2,417	
Net operating expenses	4	<u>(371)</u>		<u>(2,114)</u>	
Total technical charges			(2,646)		303
Balance on the general business technical account			<u>(2,613)</u>		<u>338</u>
Non-technical account					
Balance on the general business technical account			(2,613)		338
Investment income	8	8,290		6,589	
Unrealised gains on investments		<u>864</u>		-	
Investment expenses and charges	9	(1,505)		(640)	
Unrealised losses on investments		<u>-</u>		<u>(1,353)</u>	
			7,649		4,596
Profit on ordinary activities before taxation	7		<u>5,036</u>		<u>4,934</u>
Tax on profit on ordinary activities	10		(298)		(1,437)
Profit on ordinary activities after taxation			<u>4,738</u>		<u>3,497</u>

CAVELL INSURANCE COMPANY LIMITED**Statement of Total Recognised Gains and Losses
for the year ended 31 December 2004**

	2004 £'000	2003 £'000
Profit on ordinary activities after taxation	4,738	3,497
Currency translation differences on foreign currency net investment	261	1,546
Revaluation of subsidiary undertaking	4,343	-
Total recognised gains related to the year	<u>9,342</u>	<u>5,043</u>

Historical Cost Profits and Losses

The inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is not deemed to be a departure from the unmodified historical cost basis of accounting. Accordingly, a separate note of historical cost profits and losses is not given.

**Reconciliation of Movements in Shareholders' Funds
for the year ended 31 December 2004**

	2004 £'000	2003 £'000
Opening shareholders' funds	59,195	54,152
Total recognised gains related to the year	9,342	5,043
Capital reduction	(20,076)	-
Closing shareholders' funds	<u>48,461</u>	<u>59,195</u>

CAVELL INSURANCE COMPANY LIMITED

Balance Sheet as at 31 December 2004

	Notes	2004 £'000	2003 £'000
Assets			
Investments			
Land and buildings	12	4,675	4,000
Investment in subsidiary undertaking	13	8,338	-
Other financial investments	12	80,635	105,544
Deposits with ceding undertakings		<u>5,242</u>	<u>5,270</u>
		<u>98,890</u>	<u>114,814</u>
Reinsurers' share of technical provisions			
Claims outstanding	3	5,913	9,020
Debtors			
Debtors arising out of reinsurance operations		2,606	1,598
Other debtors : due within one year	14	<u>3,459</u>	<u>327</u>
		<u>6,065</u>	<u>1,925</u>
Other assets			
Cash at bank and in hand		8,574	15,722
Prepayments and accrued income			
Accrued interest and rent		803	2,165
Other prepayments and accrued income		<u>230</u>	<u>45</u>
		<u>1,033</u>	<u>2,210</u>
Total assets		<u>120,475</u>	<u>143,691</u>

CAVELL INSURANCE COMPANY LIMITED

Balance Sheet as at 31 December 2004

	Notes	2004 £'000	2003 £'000
Liabilities			
Capital and reserves			
Called up share capital	15	37,674	57,750
Share premium account		10,281	10,281
Profit and loss account		(3,837)	(8,836)
Revaluation reserve		4,343	-
Shareholders' funds attributable to equity interests	16	<u>48,461</u>	<u>59,195</u>
Technical provisions			
Claims outstanding	3	68,820	79,595
Deposits received from reinsurers		59	55
Creditors			
Arising out of reinsurance operations		2,482	3,453
Other creditors including taxation and social security		463	1,182
		<u>2,945</u>	<u>4,635</u>
Accruals and deferred income		190	211
Total liabilities		<u>120,475</u>	<u>143,691</u>


B.L. BARCLAY
Director

29 March 2005

CAVELL INSURANCE COMPANY LIMITED

Statement of Cash Flows for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Net cash (outflow)/inflow from operating activities	18	(3,135)	1,584
Taxation	17	(1,202)	(622)
Capital expenditure and financial investment	17	(675)	26
Acquisitions	17	(3,995)	-
Financing	17	(20,076)	-
		<u>(29,083)</u>	<u>988</u>

Cash flows were invested as follows:

Decrease in cash holdings	19	(6,646)	(1,553)
Net portfolio investment			
Fixed interest securities	19	(35,074)	(13,298)
Deposits with credit institutions	19	<u>12,637</u>	<u>15,839</u>
		<u>(22,437)</u>	<u>2,541</u>
Net investment of cash flows	19	<u>(29,083)</u>	<u>988</u>

Movement in opening and closing portfolio investments

		2004 £'000	2003 £'000
Net cash outflow for the period	19	(6,646)	(1,553)
Cash flow: portfolio investments	19	(22,437)	2,541
Movement arising from cash flows	19	<u>(29,083)</u>	<u>988</u>
Changes in market values and exchange rates	19	(2,974)	(1,676)
Total movement in cash and portfolio investments	19	<u>(32,057)</u>	<u>(688)</u>
Cash and portfolio investments net of financing at 1 January	19	121,258	121,946
Cash and portfolio investments net of financing at 31 December	19	<u>89,201</u>	<u>121,258</u>

Notes to the Financial Statements

1 Accounting policies

(a) Basis of preparation

These financial statements are prepared in compliance with section 255 of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable accounting standards. They also comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in November 2003.

(b) Technical account

- (i) Premiums are accounted for and recorded in the technical account in the year of notification.
- (ii) Provision for claims outstanding comprises provisions for the estimated ultimate cost of claims notified but not settled at the date of the balance sheet and for claims incurred but not notified at that date; the provision reflects anticipated reinsurance and other recoveries.

(c) Investment return

Investment return comprises income from investments on an accruals basis, together with realised and unrealised investment gains and losses. Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price. Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year. Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account.

(d) Investments

Leasehold buildings are stated at their latest valuation. Other financial investments are stated at market value with the exception of loans secured by mortgages, which are valued at cost. Unrealised gains and losses are taken to the profit and loss account. The investment in subsidiary undertaking is valued at its net asset value. The excess value of the investment in subsidiary undertaking over its cost is credited to the revaluation reserve.

(e) Foreign currencies

Foreign currency transactions are converted to sterling at the rate applicable when recorded in the books, with the exception of transactions in United States and Canadian dollars, and in Australian and New Zealand dollars through branches, which are converted at rates ruling on 31 December 2004.

Assets and liabilities are shown in the balance sheet at rates ruling on 31 December 2004.

Exchange differences arising from retranslation of opening net investment in foreign business operations are taken to reserves.

CAVELL INSURANCE COMPANY LIMITED

Notes to the Financial Statements

1 Accounting policies (continued)

(f) Deferred taxation

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

(g) Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(h) Claims handling costs

The Company has not provided for future claims handling costs as it estimates that future investment income will be in excess of any future expenses. The Company estimates that the provision for future claims handling costs, if the Company continues to run off its liabilities rather than implement a Scheme of Arrangement, would be £8,661,000 before taking account of future investment income.

2 Segmental information

	2004 £'000	2003 £'000
<i>Technical account</i>		
Gross premiums earned	26	163
Gross claims incurred	(1,188)	2,531
Gross operating expenses	(371)	(2,114)
Gross technical result	(1,533)	580
Reinsurance balance	(1,080)	(242)
Net technical result	(2,613)	338

All premiums relate to general reinsurance business concluded in the United Kingdom with the exception of business transacted through overseas branches, which is considered immaterial and is not disclosed separately in the financial statements.

CAVELL INSURANCE COMPANY LIMITED

Notes to the Financial Statements

3 Provisions for outstanding claims

	Gross £'000	Reinsurance £'000	Net £'000
2004			
Outstanding claims provision brought forward at 1 January	79,595	9,020	70,575
Revaluation of outstanding claims provision brought forward to prevailing rates of exchange	(3,736)	(1,080)	(2,656)
Payments during the year in respect of those provisions	(8,227)	(940)	(7,287)
Outstanding claims provision carried forward at 31 December	(68,820)	(5,913)	(62,907)
Charge to the profit and loss account	<u>(1,188)</u>	<u>1,087</u>	<u>(2,275)</u>
2003			
Outstanding claims provision brought forward at 1 January	88,371	12,114	76,257
Revaluation of outstanding claims provision brought forward to prevailing rates of exchange	(1,239)	(1,294)	55
Payments during the year in respect of those provisions	(5,006)	(1,686)	(3,320)
Outstanding claims provision carried forward at 31 December	(79,595)	(9,020)	(70,575)
Release to the profit and loss account	<u>2,531</u>	<u>114</u>	<u>2,417</u>

Included in the (charge)/release to the profit and loss account is a bad debt provision of £1,656,000 (2003 - release £403,000). Further details are provided in note 4.

The ultimate cost of gross 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 costs per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption 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, economic conditions 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. Large claims are usually separately assessed, either by being measured at case estimate face value or separately projected in order to reflect their future development. 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 also 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.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events, whether the Company continues to run off its liabilities or implements a Scheme of Arrangement, and these may result in significant adjustments to the amounts provided. Adjustments to the technical provisions are reflected in the financial statements for the period in which the adjustments are made.

CAVELL INSURANCE COMPANY LIMITED

Notes to the Financial Statements

4 Net operating expenses

	2004 £'000	2003 £'000
Acquisition costs	(8)	(16)
Administrative expenses	(2,375)	(1,868)
Bad debt release/(provision)	<u>2,012</u>	<u>(230)</u>
	<u>(371)</u>	<u>(2,114)</u>

The bad debt release/(provision) mainly arises from the reclassification of bad debt provisions between those allocated against Debtors arising out of reinsurance operations and those allocated against the Reinsurers' share of claims outstanding (note 3). A summary of the net bad debt release in the profit and loss account is set out below:

	2004 £'000	2003 £'000
Bad debt release/(provision) above	2,012	(230)
Bad debt (provision)/release included in Reinsurers' share of claims outstanding (note 3)	<u>(1,656)</u>	<u>403</u>
	<u>356</u>	<u>173</u>

5 Particulars of staff

No staff were employed by the Company during the year (2003 - Nil).

6 Directors' emoluments

The total remuneration received by the Directors for the year is as follows:

	2004 £	2003 £
Fees	<u>65,000</u>	<u>68,632</u>

The Company paid consideration of £24,694 (2003 - £31,568) to a group undertaking for the services of one (2003 - one) director.

7 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2004 £'000	2003 £'000
Auditors' remuneration - audit services	61	59
- other services	<u>97</u>	<u>-</u>
	<u>158</u>	<u>59</u>

CAVELL INSURANCE COMPANY LIMITED

Notes to the Financial Statements

8 Investment income

	2004 £'000	2003 £'000
Income from land and buildings	340	341
Income from subsidiary undertaking	3,289	-
Income from other investments	4,661	6,248
	<u>8,290</u>	<u>6,589</u>

9 Investment expenses and charges

	2004 £'000	2003 £'000
Investment management expenses	(139)	(151)
Interest payable	-	(37)
Losses on the realisation of investments	(1,366)	(452)
	<u>(1,505)</u>	<u>(640)</u>

10 Taxation

(a) No provision has been made in the financial statements for corporation tax on the assessable profits for the year as they have been set off against losses of previous years.

The charge for taxation in the profit and loss account comprises the following:

	2004 £'000	2003 £'000
Overseas taxation	(330)	(1,469)
Prior years' adjustment	32	32
	<u>(298)</u>	<u>(1,437)</u>

(b) Factors affecting current tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2003 - 30%).

The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	<u>5,036</u>	<u>4,934</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%)	(1,511)	(1,480)
Expenses not deductible for tax purposes	(71)	(3)
Overseas taxation	(231)	(1,028)
Tax on currency translation differences	(78)	(464)
Additional receipt for General Insurance Reserves Regulations	(5)	(25)
Utilisation of tax losses	1,566	1,531
Tax under provided in previous years	32	32
	<u>(298)</u>	<u>(1,437)</u>

Notes to the Financial Statements**10 Taxation (continued)****(c) Factors that may affect future tax charges**

The company has tax losses arising in the UK of £4.038m (2003 - £9.349m) that are available indefinitely for offset against future taxable profits of the company.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for is nil (2003 - £70,000). At present, it is not envisaged that any tax will become payable in the foreseeable future.

The company's overseas tax rates are higher than those in the UK primarily because the profits earned in its Canadian Branch are taxed at an effective rate of 36.12% (2003 - 36.62%).

No deferred tax is recognised on the unremitted earnings of overseas branches as the company has no liability to additional taxation should such amounts be remitted due to the availability of double taxation relief.

11 Deferred taxation

No provision has been made in the financial statements for deferred taxation.

Details of the deferred tax asset not included in the financial statements is given below:

	2004	2003
	£'000	£'000
Realisation of investments at values stated in the balance sheet	326	326
Accelerated capital allowances	(33)	(30)
Trading losses available for carry forward	(1,211)	(2,805)
	<u>(918)</u>	<u>(2,509)</u>

CAVELL INSURANCE COMPANY LIMITED

Notes to the Financial Statements

12 Investments

	Current value		Historical cost	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Land and buildings				
Long leasehold	<u>4,675</u>	<u>4,000</u>	<u>7,345</u>	<u>6,670</u>
Other financial investments				
Shares and other variable-yield securities and units in unit trusts	2,453	2,288	1,374	1,374
Debt securities and other fixed income securities	47,676	85,699	48,126	86,577
Loans secured by mortgages	8	8	8	8
Deposits with credit institutions	<u>30,498</u>	<u>17,549</u>	<u>30,194</u>	<u>17,518</u>
	<u>80,635</u>	<u>105,544</u>	<u>79,702</u>	<u>105,477</u>

Included in the other financial investments were the following listed investments:

Shares and other variable-yield securities and units in unit trusts	2,453	2,288	1,374	1,374
Debt securities and other fixed income investments	47,676	85,699	48,126	86,577

None of the land and buildings, which were last valued in 2002, are occupied by the Company for its own activities.

Certain of the Company's investments are deposited as security for reinsurance obligations with ceding companies or in countries outside the United Kingdom as required under local legislation.

The facility provided to the Company in respect of its letter of credit liabilities is secured by a charge over certain of the Company's investments in debt securities and other fixed income securities.

13 Investment in subsidiary undertaking

During the year the Company purchased 100% of the share capital of Cirrus Reinsurance Company Limited AS, a reinsurance company incorporated in Norway. This investment is stated in the balance sheet at its net asset value.

	2004
	£'000
Carrying value of subsidiary undertaking at 1 January	-
Purchase consideration	3,995
Revaluation of subsidiary undertaking	<u>4,343</u>
Carrying value of subsidiary undertaking at 31 December	<u>8,338</u>

14 Other debtors

	2004	2003
	£'000	£'000
<i>Due within one year</i>		
Amounts due from subsidiary undertaking	3,289	-
Amounts due from parent undertaking	26	96
Other debtors	<u>144</u>	<u>231</u>
	<u>3,459</u>	<u>327</u>

CAVELL INSURANCE COMPANY LIMITED

Notes to the Financial Statements

15 Share capital

	2004 £'000	2003 £'000
<i>Ordinary shares of £1 each</i>		
Authorised	<u>58,000</u>	<u>58,000</u>
Issued and fully paid	<u>37,674</u>	<u>57,750</u>

During the year the Company purchased and cancelled 20,076,000 of its own shares for £1 each.

16 Shareholders' funds

	Share capital £'000	Share premium £'000	Profit & loss a/c £'000	Revaluation reserve £'000	Total £'000
2004					
Balance at 1 January	57,750	10,281	(8,836)	-	59,195
Capital reduction	(20,076)	-	-	-	(20,076)
Currency translation differences					
on foreign currency net investment	-	-	262	-	262
Retained profit for the financial year	-	-	4,737	-	4,737
Revaluation of subsidiary undertaking	-	-	-	4,343	4,343
Balance at 31 December	<u>37,674</u>	<u>10,281</u>	<u>(3,837)</u>	<u>4,343</u>	<u>48,461</u>
2003					
Balance at 1 January	57,750	10,281	(13,879)	-	54,152
Currency translation differences					
on foreign currency net investment	-	-	1,546	-	1,546
Retained profit for the financial year	-	-	3,497	-	3,497
Balance at 31 December	<u>57,750</u>	<u>10,281</u>	<u>(8,836)</u>	<u>-</u>	<u>59,195</u>

17 Gross cash flows

	2004 £'000	2003 £'000
Taxation		
Overseas tax repaid	177	41
Overseas tax paid	<u>(1,379)</u>	<u>(663)</u>
	<u>(1,202)</u>	<u>(622)</u>
Capital expenditure and financial investment		
Receipts from repayments of loans secured by mortgages	-	26
Payments to acquire long leasehold property	<u>(675)</u>	<u>-</u>
	<u>(675)</u>	<u>26</u>
Acquisitions		
Purchase of subsidiary undertaking	<u>(3,995)</u>	<u>-</u>
Financing		
Repayment of share capital	<u>(20,076)</u>	<u>-</u>

CAVELL INSURANCE COMPANY LIMITED

Notes to the Financial Statements

18 Reconciliation of result before tax to net cash flow from operating activities

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	5,036	4,934
Realised investment losses	1,366	452
Unrealised investment (gains)/losses	(864)	1,353
Decrease in provision for claims outstanding	(5,012)	(5,737)
Increase in debtors, prepayments and accrued income	(3,001)	(1,939)
(Decrease)/increase in creditors, accruals and deferred income	(446)	2,168
Decrease/(increase) in deposits with ceding undertakings	58	(104)
Increase in deposits received from reinsurers	7	2
Realised exchange (losses)/gains	(279)	455
Net cash (outflow)/inflow from operating activities	<u>(3,135)</u>	<u>1,584</u>

19 Movement in cash and portfolio investments

	At 1 Jan 2004 £'000	Cash Flow £'000	Changes to market value and currencies £'000	At 31 Dec 2004 £'000
Cash at hand and in bank	15,722	(6,646)	(502)	8,574
Shares and other variable-yield securities and units in unit trusts	2,288	-	165	2,453
Debt securities and other fixed income securities	85,699	(35,074)	(2,949)	47,676
Deposits with credit institutions	17,549	12,637	312	30,498
	<u>121,258</u>	<u>(29,083)</u>	<u>(2,974)</u>	<u>89,201</u>

CAVELL INSURANCE COMPANY LIMITED

Notes to the Financial Statements

20 Related party transactions

The Company is a wholly-owned subsidiary of, Cavell Holdings Limited, which is itself a subsidiary of Dukes Place Holdings L.P.

- (i) The Company's parent undertaking, Cavell Holdings Limited, holds a 25% interest in Cavell Management Services Limited ("CMSL") and its wholly-owned subsidiary Peter Blem Adjusters Limited ("PBAL"). Mr K E Randall has an 86.668% interest in Randall & Quilter Investment Holdings Limited, which owns the remaining 75% of CMSL. During the year the Company purchased management services from CMSL amounting to £1,405,000 (2003 - £1,300,000). CMSL occupies property owned by the Company but has been granted an exemption from paying rent for the period from 1 January 2003 to 28 January 2008. CMSL paid the Company £57,000 (2003 - £60,000) in respect of accommodation maintenance services. At 31 December 2004 the Company owed £Nil (2003 - £5,000) to PBAL and was owed £2,000 (2003 - £2,000) by CMSL.
- (ii) At 31 December 2004 the Company was owed £26,000 (2003 - £96,000) from the parent undertaking, Cavell Holdings Limited.
- (iii) At 31 December 2004 the Company was owed £3,289,000 (2003 - Nil) from the subsidiary undertaking, Cirrus Reinsurance Company Limited AS, in respect of a declared dividend.
- (iv) Details of emoluments paid to Directors are disclosed in note 6.

21 Post balance sheet event

- (i) In January 2005 the Company purchased and cancelled 6,800,000 of its own shares for £1 each.
- (ii) The Company is presently considering with its creditors the possible implementation of a Scheme of Arrangement. No decision has been made at present, either by the Company or its creditors, on whether to proceed with the Scheme.

22 Holding company

The Company is a subsidiary undertaking of Cavell Holdings Limited, which is registered in England. The financial statements of the parent undertaking can be obtained from Rose Lane Business Centre, Rose Lane, Norwich, NR1 1JY, England.

The Directors regard Dukes Place Holdings L.P., incorporated in Bermuda, as the Company's parent undertaking.

The Directors consider Greenwich Street Investments II LLP to be the ultimate controlling party.