

**CAVELL HOLDINGS LIMITED**  
**(formerly Norwich Winterthur Holdings Limited)**

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**REPORT AND FINANCIAL STATEMENTS**  
**2003**

Company Registration No. 1095628



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**Directors and Management**

**Directors**

Mr R L Barclay  
Mr M P Patel  
Mr K E Randall

**Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

**Registered Office**

Rose Lane Business Centre Rose Lane Norwich NR1 1JY England  
Telephone: (01603) 599300 Facsimile: (01603) 599432

## **Report of the Directors**

The Directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2003.

### **Principal activity and business review**

The Company is an investment parent undertaking whose subsidiary undertakings are engaged in the run-off of the insurance and reinsurance business underwritten, together with the provision of insurance related services. The business was predominantly underwritten in the UK and through branches in Canada, Australia and New Zealand.

During the year the Company disposed of 75% of its investment in Cavell Management Services Limited and Peter Blem Adjusters Limited to Randall & Quilter Investment Holdings Limited for consideration of US\$400,000.

### **Post balance sheet event**

Details of post balance sheet events are disclosed in note 32 to the financial statements on page 26.

### **Results and dividends**

After allowing for taxation and minority interest, there was a Group profit for the year of £4,243,000 (2002 - £10,876,000). The Directors have recommended the payment of a dividend of £8,369,000 for the year (2002 - £Nil).

### **Change of name**

The name of the company was changed from Norwich Winterthur Holdings Limited to Cavell Holdings Limited on 30 January 2003.

### **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 O W Hula, Mr S J Blease, Mr P A G Green, Mr C J Hopper and Mr J Scollen resigned on 28 January 2003, with Mr R L Barclay, Ms C K Vanden Beukel, Mr M P Patel, Mr S Patel and Mr K E Randall being appointed on the same date. Ms C K Vanden Beukel resigned on 25 September 2003. 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 in, or option to subscribe for, shares in the companies within the Group.

### **Charitable donations**

Charitable donations totalling £1,655 (2002 - £1,253) were made during the year.

By Order of the Board



R. L. BARCLAY  
Director

... August 2004

**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 the Group and of the profit or loss of the Group 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, subject to any material departures disclosed and explained in the financial statements; and
- . prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 Group, 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent Auditors' Report to the Members of Cavell Holdings Limited**

We have audited the group's financial statements for the year ended 31 December 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Consolidated Balance Sheet, Parent Company Balance Sheet, Consolidated Statement of Cash Flows, and the related notes 1 to 33. 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 group 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.

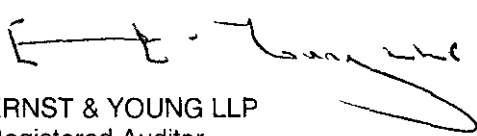
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 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 and of the group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
ERNST & YOUNG LLP  
Registered Auditor  
London

.... August 2004

**Consolidated Profit and Loss Account**  
**for the year ended 31 December 2003**

		2003		2002 restated (note 1(c))	
	Notes	£'000	£'000	£'000	£'000
<b>Technical account - General business</b>					
<i>Discontinued operations</i>					
Gross premiums written			163		(43)
Outwards reinsurance premiums			(128)		147
Earned premiums, net of reinsurance			35		104
<b>Claims paid</b>					
Gross amount		(5,006)		(5,925)	
Reinsurers' share		1,686		(4,086)	
Net claims paid		(3,320)		(10,011)	
<b>Change in the provision for claims</b>					
Gross amount		7,537		17,076	
Reinsurers' share		(1,800)		1,201	
Change in the net provision for claims		5,737		18,277	
Claims incurred, net of reinsurance	3	2,417		8,266	
Net operating expenses	4,5	(2,053)		(453)	
<b>Total technical charges</b>			364		7,813
<b>Balance on the general business technical account</b>			399		7,917
<b>Non-technical account</b>					
Balance on the general business technical account			399		7,917
Investment income	8	7,040		7,038	
Unrealised gains on investments		-		348	
Investment expenses and charges	9	(640)		(548)	
Unrealised losses on investments		(1,353)		-	
			5,047		6,838
Other income			3,084		3,641
Other charges	5		(3,736)		(3,904)
Negative goodwill written back	20		822		-
Disposal of business operation	16		(274)		-
<b>Profit on ordinary activities before taxation</b>			5,342		14,492
Tax on profit on ordinary activities	10		(1,023)		(461)
<b>Profit on ordinary activities after taxation</b>			4,319		14,031
Minority interests			(76)		(3,155)
<b>Profit for the year attributable to equity interests</b>			4,243		10,876
Dividends proposed on equity shares	12		(8,369)		-
<b>Retained (loss)/profit for the year</b>			(4,126)		10,876

**CAVELL HOLDINGS LIMITED (formerly Norwich Winterthur Holdings Limited)****Statement of Total Recognised Gains and Losses  
for the year ended 31 December 2003**

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities after taxation and minority interests	<b>4,243</b>	10,876
Currency translation differences on foreign currency net investment	<b>1,546</b>	575
Total recognised gains related to the year	<b><u>5,789</u></b>	<b><u>11,451</u></b>

**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 2003**

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Opening shareholders' funds	<b>62,288</b>	50,837	<b>62,226</b>	52,199
Total recognised gains related to the year	<b>5,789</b>	11,451	<b>5,851</b>	10,027
Dividends	<b>(8,369)</b>	-	<b>(8,369)</b>	-
Closing shareholders' funds	<b><u>59,708</u></b>	<b><u>62,288</u></b>	<b><u>59,708</u></b>	<b><u>62,226</u></b>



**Profit and Loss Account  
for the year ended 31 December 2003**

	2003 £'000	2002 £'000
Interest receivable and similar income	421	88
Other operating income	-	203
Administrative expenses	(182)	(199)
Loss on disposal of shares in subsidiary undertaking	(147)	-
<b>Profit on ordinary activities before taxation</b>	<b>92</b>	<b>92</b>
Taxation	72	(20)
<b>Profit for the year after taxation</b>	<b>20</b>	<b>112</b>
Dividends paid on equity shares	(8,369)	-
<b>Retained (loss)/profit for the year</b>	<b>(8,349)</b>	<b>112</b>

**Statement of total recognised gains and losses**

Profit for the year after taxation	20	112
Revaluation of subsidiary undertakings	5,789	9,915
Revaluation of associated undertakings	42	-
<b>Total gains and losses for the year</b>	<b>5,851</b>	<b>10,027</b>

**Statement of retained profits/(losses)**

Retained profits/(losses) as at 1 January	7,026	(3,001)
Total gains for the year	5,851	10,027
Dividends	(8,369)	-
<b>Retained profits as at 31 December</b>	<b>4,508</b>	<b>7,026</b>



R L BARCLAY  
Director

11 August 2004



**CAVELL HOLDINGS LIMITED (formerly Norwich Winterthur Holdings Limited)**

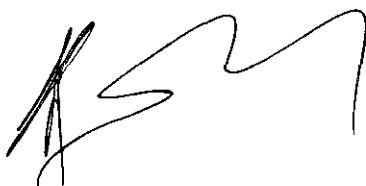
**Consolidated Balance Sheet  
as at 31 December 2003**

	Notes	2003 £'000	2002 £'000
<b>Assets</b>			
<b>Investments</b>			
Associated undertakings		167	-
Land and buildings	13	4,000	4,000
Other financial investments	13	105,584	104,587
Deposits with ceding undertakings		5,270	4,898
		<u>115,021</u>	<u>113,485</u>
<b>Reinsurers' share of technical provisions</b>			
Claims outstanding	3	9,020	12,114
<b>Debtors</b>			
Debtors arising out of reinsurance operations		1,598	1,600
Other debtors	19	485	9,755
Amounts owed by group undertaking	19	8,369	-
		<u>10,452</u>	<u>11,355</u>
<b>Other assets</b>			
Tangible assets	21	-	43
Cash at bank and in hand		15,991	28,781
		<u>15,991</u>	<u>28,824</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		2,166	1,451
Other prepayments and accrued income		45	217
		<u>2,211</u>	<u>1,668</u>
<b>Total assets</b>		<u>152,695</u>	<u>167,446</u>

**CAVELL HOLDINGS LIMITED (formerly Norwich Winterthur Holdings Limited)**

**Consolidated Balance Sheet  
as at 31 December 2003**

	Notes	2003 £'000	2002 £'000
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Called up share capital	22	54,500	54,500
Share premium account		700	700
Profit and loss account		4,508	7,088
<b>Shareholders' funds attributable to equity interests</b>	23	<u>59,708</u>	<u>62,288</u>
<b>Minority interests</b>		-	12,174
<b>Technical provisions</b>			
Claims outstanding	3	79,595	88,371
<b>Deposits received from reinsurers</b>		55	56
<b>Creditors</b>			
Arising out of reinsurance operations		3,453	2,990
Amounts owed to credit institutions		-	35
Amounts owed to group undertakings		71	-
Other creditors including taxation and social security	24	<u>9,597</u>	<u>795</u>
		<u>13,121</u>	<u>3,820</u>
<b>Accruals and deferred income</b>		216	737
<b>Total liabilities</b>		<u>152,695</u>	<u>167,446</u>



R.L. BARCLAY  
Director  
11 August 2004

**Parent Company Balance Sheet  
as at 31 December 2003**

	Notes	2003 £'000	2002 £'000
<b>Fixed Assets</b>			
Investments			
Shares in subsidiary undertakings	15	59,195	42,477
Shares in associated undertakings	18	167	-
Others		41	41
	14	<u>59,403</u>	<u>42,518</u>
<b>Current assets</b>			
Cash at bank and in hand		270	10,351
Debtors			
Sundry debtors : falling due within one year	19	255	9,451
Amounts owed by group undertakings	19	8,369	23
Prepayments and accrued income		1	11
		<u>8,895</u>	<u>19,836</u>
<b>Creditors: amounts falling due within one year</b>			
Amounts owed to group undertakings		168	121
Amounts owed to associated undertakings		40	-
Other creditors	24	8,377	-
Accruals and deferred income		5	7
		<u>8,590</u>	<u>128</u>
<b>Net current assets</b>		<b>305</b>	<b>19,708</b>
<b>Net assets</b>		<u><b>59,708</b></u>	<u><b>62,226</b></u>
<b>Capital and reserves</b>			
Called up share capital	22	54,500	54,500
Share premium account		700	700
Profit and loss account		4,508	7,026
	23	<u>59,708</u>	<u>62,226</u>



R.L. BARCLAY  
Director

!!! August 2004

**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2003**

	Notes	2003 £'000	2002 £'000
<b>Net cash inflow from operating activities</b>	28	<b>2,851</b>	17,912
<b>Taxation</b>	27	<b>(622)</b>	(301)
<b>Capital expenditure and financial investment</b>	27	<b>(88)</b>	226
<b>Acquisitions and disposals</b>	27	<b>(12,131)</b>	-
		<u><b>(9,990)</b></u>	<u>17,837</u>

**Cash flows were invested as follows:**

(Decrease)/increase in cash holdings and deposits with credit institutions		<b>(3,635)</b>	11,103
<b>Net portfolio investments</b>			
Fixed interest securities		<b>(6,355)</b>	6,734
<b>Net investment of cash flows</b>		<u><b>(9,990)</b></u>	<u>17,837</u>

**Movement in opening and closing portfolio investments**

	Notes	2003 £'000	2002 £'000
<b>Net cash (outflow)/inflow for the period</b>		<b>(3,635)</b>	11,103
Cash flow: portfolio investments		<b>(6,355)</b>	6,734
Movement arising from cash flows	29	<u><b>(9,990)</b></u>	<u>17,837</u>
Changes in market values and exchange rates	29	<b>(1,683)</b>	(2,616)
Total movement in cash and portfolio investments net of financing		<u><b>(11,673)</b></u>	<u>15,221</u>
<b>Cash and portfolio investments net of financing at 1 January</b>		<b>133,199</b>	117,978
<b>Cash and portfolio investments net of financing at 31 December</b>		<u><b>121,526</b></u>	<u>133,199</u>

**Notes to the Financial Statements**

**1 Accounting policies**

**(a) Basis of preparation**

The consolidated 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 December 1998.

The balance sheet of the Company is prepared in accordance with the provisions of Schedule 4 to the Companies Act 1985. The Company takes advantage of the exemption under Section 230 of the Companies Act 1985 from presenting its own profit and loss account. The profit for the year dealt with in the financial statements of the parent undertaking was £20,000 (2002 - profit £112,000).

The consolidated financial statements incorporate:

- (i) The results of the Company and its subsidiary and associated undertakings from their date of acquisition and to the date of their disposal.
- (ii) The assets and liabilities of the Company and subsidiary undertakings and in respect of associated undertakings, the Company's share of their net assets on an equity basis.

**(b) Technical account**

- (i) Premiums are accounted for and recorded in the technical account in the year of notification. Premium income relates to reinstatement premiums and is attributable to one activity, the transaction of general reinsurance business. The Group's activity is discontinued, underwriting having ceased in 1993, and involves the run-off of claims liabilities which will extend for an undefined period.
- (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 interest and dividends 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.

In previous years an allocation of the investment return from the non-technical account to the general business technical account was made. This allocation is no longer made and prior year figures have been restated.

**(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.

In the financial statements of the parent undertaking, shares in subsidiary and associated undertakings are stated at the Company's share of net asset value as at the balance sheet date.

**Notes to the Financial Statements**

**1 Accounting policies (continued)**

**(e) Fixed assets and depreciation**

Fixed assets are depreciated on a straight-line basis over their useful economic lives as follows :

*Tangible assets*

Fixtures, fittings and furniture	5 years
Motor vehicles	4 years
Computer equipment	3 years

Depreciation on revalued long leasehold properties included in investments is deemed to be immaterial and is not provided in the financial statements.

**(f) 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.

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

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

**(g) 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.

**(h) Pension cost**

The expected cost of pensions, in respect of the Group's defined benefit scheme, is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme. Costs in respect of defined contribution schemes are charged to the profit and loss account when the expense is incurred.

**(i) 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.

**(j) Negative goodwill**

Negative goodwill arising on consolidation is capitalised and credited through the profit and loss account in the current year, as it relates to a company which is in run-off.

## Notes to the Financial Statements

## 2 Segmental information

	2003 £'000	2002 £'000
<i>Technical account</i>		
Gross premiums earned	163	(43)
Gross claims incurred	2,531	11,151
Gross operating expenses	(2,053)	(453)
Gross technical result	641	10,655
Reinsurance balance	(242)	(2,738)
Net technical result	399	7,917

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.

## 3 Movements in prior years' outstanding claims provisions

	Gross £'000	Reinsurance £'000	Net £'000
<b>2003</b>			
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 in respect of claims provided at 1 January	(79,595)	(9,020)	(70,575)
Over provision of prior years	<u>2,531</u>	<u>114</u>	<u>2,417</u>
<b>2002</b>			
Outstanding claims provision brought forward at 1 January	109,259	11,613	97,646
Revaluation of outstanding claims provision brought forward to prevailing rates of exchange	(3,812)	(700)	(3,112)
Payments during the year in respect of those provisions	(5,925)	4,086	(10,011)
Outstanding claims provision carried forward in respect of claims provided at 1 January	(88,371)	(12,114)	(76,257)
Over provision of prior years	<u>11,151</u>	<u>2,885</u>	<u>8,266</u>

Included in the over provision of prior years (net) is a bad debt release of £403,000 (2002 - write off £808,000).

The level of the gross technical provisions has been set on the basis of information which is currently available, including potential outstanding loss advices, experience of development of similar claims and case law. The methods used, and estimates made, are reviewed regularly. The level of the related reinsurance recoveries is dependent upon both the accuracy of the estimated gross technical provisions and the ultimate ability to pay of the underlying security. The reinsurance recoveries are stated net of the provision for estimated future irrecoverable amounts.



## Notes to the Financial Statements

3 **Movements in prior years' outstanding claims provisions (continued)**

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 and 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.

4 **Net operating expenses**

	2003 £'000	2002 £'000
Acquisition costs	(16)	(14)
Administrative expenses	(1,807)	(1,565)
Bad debt write (off)/back	(230)	1,126
	<u>(2,053)</u>	<u>(453)</u>

5 **Administrative expenses and other charges**

Administrative expenses and other charges include:

	2003 £'000	2002 £'000
Depreciation	74	54
Operating lease payments - plant & machinery	42	45
- other	279	305
Auditors' remuneration: audit services - Ernst & Young LLP	69	77
- Littlejohn Frazer	21	-
non-audit services - Ernst & Young LLP	7	7
- Littlejohn Frazer	-	-

Littlejohn Frazer were auditors of Cavell Management Services Limited and Peter Blem Adjusters Limited in 2003.

6 **Staff costs**

	2003 £'000	2002 £'000
Wages and salaries	2,414	2,643
Social security costs	215	249
Other pension costs	297	363

The average monthly number of employees employed during the year was made up as follows:

	2003 No.	2002 No.
Management	6	6
Services	48	58
Administration	8	8
	<u>62</u>	<u>72</u>

## Notes to the Financial Statements

## 7 Directors' emoluments

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

	2003 £	2002 £
Fees	28,908	165,000
Other emoluments	20,669	245,423
	<u>49,577</u>	<u>410,423</u>

The highest paid director received emoluments of £12,176 (2002 - £144,558).

## 8 Investment income

	2003 £'000	2002 £'000
Interest receivable from group undertaking (see note 31(ii))	369	-
Income from land and buildings	341	363
Income from other investments	6,330	6,675
	<u>7,040</u>	<u>7,038</u>

## 9 Investment expenses and charges

	2003 £'000	2002 £'000
Investment management expenses	(151)	(166)
Interest payable - reinsurance balances	-	(3)
- other	(37)	(9)
Losses on the realisation of investments	(452)	(370)
	<u>(640)</u>	<u>(548)</u>

## 10 Taxation

(a) No provision has been made in the financial statements for UK corporation tax on the assessable profits for the year as they have been set off against losses of previous years. Group relief relates to amounts payable for losses surrendered by other group companies.

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

	2003 £'000	2002 £'000
<i>Current tax:</i>		
Group relief	(72)	-
Overseas taxation	(1,469)	(484)
Prior years' adjustment	32	23
	<u>(1,509)</u>	<u>(461)</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences (note 11)	486	-
	<u>(1,023)</u>	<u>(461)</u>

## Notes to the Financial Statements

## 10 Taxation (continued)

## (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% (2002 - 30%).

The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	<u>5,342</u>	<u>14,492</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	(1,603)	(4,348)
Expenses not deductible for tax purposes	196	(14)
Overseas taxation	(1,028)	(339)
Revaluation of leasehold property	-	(150)
Profit on disposal of leasehold property not taxable	-	29
Loss on sale of group undertakings	(82)	-
Depreciation on capital item	(1)	-
Tax on currency translation differences	(464)	(144)
Additional receipt for General Insurance Reserves Regulations	(25)	(9)
Transfer pricing adjustment	-	(11)
Unrelieved losses carried forward	(73)	(12)
Non-trading deficits on loan relationships carried forward	-	(2)
Utilisation of tax losses	1,531	3,966
Financial statements prior year adjustments effected in current tax year	-	540
Tax over provided in previous years	32	23
Other	8	10
	<u>(1,509)</u>	<u>(461)</u>

## (c) Factors that may affect future tax charges

The group has tax losses arising in the UK of £9.349m (2002 - £16.003m) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of those losses as they may not be used to offset taxable profits elsewhere in the group.

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 is £70,000 (2002 - £179,000). At present, it is not envisaged that any tax will become payable in the foreseeable future.

The group'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 36.62% (2002 - 38.62%).

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

## Notes to the Financial Statements

11 **Deferred taxation**

No provision has been made in the financial statements for deferred taxation (2002 - Nil).

	2003 £'000	2002 £'000
Provision at the start of the period	-	-
Deferred tax charge in profit and loss account for period:		
Accelerated capital allowances	72	-
Tax losses carried forward	414	-
	<u>486</u>	<u>-</u>
Disposal of group undertakings	(486)	-
Provision at the end of the period	<u>-</u>	<u>-</u>

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

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Realisation of investments at values stated in the balance sheet	326	-	326	-
Short-term timing differences	-	-	(91)	-
Accelerated capital allowances	(30)	-	(123)	-
Trading losses available for carry forward	<u>(2,843)</u>	<u>-</u>	<u>(4,802)</u>	<u>-</u>
	<u>(2,547)</u>	<u>-</u>	<u>(4,690)</u>	<u>-</u>

12 **Dividends proposed on equity shares**

The Company proposed a dividend for the year of £8,369,000 payable from distributable profits. This dividend is to be effectively paid during 2004 by the cancellation of an existing loan from the Company to the parent undertaking for a corresponding amount.

## Notes to the Financial Statements

## 13 Investments of the Group

	Current value		Historical cost	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Land and buildings				
Long leasehold	<u>4,000</u>	<u>4,000</u>	<u>6,670</u>	<u>6,670</u>
Other financial investments				
Shares and other variable-yield securities and units in unit trusts	2,288	2,021	1,374	1,374
Debt securities and other fixed income securities	92,720	100,970	93,567	100,349
Loans secured by mortgages	49	75	49	75
Deposits with credit institutions	10,527	1,462	10,527	1,462
Other investments	-	59	-	59
	<u>105,584</u>	<u>104,587</u>	<u>105,517</u>	<u>103,319</u>

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

Shares and other variable-yield securities and units in unit trusts	2,288	2,021	1,374	1,374
Debt securities and other fixed income investments	92,720	100,970	93,567	100,349

20% of the leasehold buildings, which were last valued in 2002, are occupied by the Group for its own activities.

The long leasehold land and buildings were valued as at May 2002 at open market value. This valuation was made by Cluttons, a firm of independent Chartered Surveyors.

Certain of the Group'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 Group in respect of its letter of credit liabilities is secured by a charge over certain of the Group's investments in British and Overseas government securities.

## 14 Investments of the Parent Company

	Current value		Historical cost	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Subsidiary undertakings	59,195	42,477	61,445	51,522
Associated undertakings	167	-	383	-
Other financial investments				
Loans secured by mortgages	41	41	41	41
	<u>59,403</u>	<u>42,518</u>	<u>61,869</u>	<u>51,563</u>

## Notes to the Financial Statements

## 15 Investments in subsidiary undertakings

At 31 December 2003 the Company owned 100% of Cavell Insurance Company Limited, an insurance company registered in England.

	2003 £'000
Carrying value of shares in subsidiary undertakings brought forward	42,477
Acquisition of shares in subsidiary undertaking	11,428
Revaluation for the year	5,789
Disposal of shares in subsidiary undertaking	(499)
Carrying value of shares in subsidiary undertakings carried forward	<u>59,195</u>

## 16 Disposal of subsidiary undertaking

On 17 December 2003 the group disposed of 75% of its 100% investment in Cavell Management Services Limited and its wholly-owned subsidiary Peter Blem Adjusters Limited. The disposal is analysed as follows:

	£'000
<i>Net assets disposed of:</i>	
Investments	65
Tangible assets	91
Debtors	1,243
Cash at bank and in hand	703
Creditors	<u>(1,434)</u>
	668
 Disposal of 75%	 501
Loss on disposal	<u>(274)</u>
Receivable in respect of disposal	<u>227</u>
 Satisfied by:	 
Cash (unpaid as at 31 December 2003)	<u>227</u>

## 17 Acquisitions during the period

On 28 January 2003 the Group acquired 22.481% of the shares of Cavell Insurance Company Limited, bringing its shareholding up to 100%. The acquisition has been accounted for using acquisition accounting and has been consolidated into the Group balance sheet as follows:

	£'000
Minority interest at 1 January 2003	12,174
2003 movement in minority interest prior to acquisition	76
Net assets acquired	<u>12,250</u>
Consideration	<u>11,428</u>
Negative goodwill (Note 19)	<u>(822)</u>

## Notes to the Financial Statements

## 18 Investments in associated undertakings

Details of the associated undertakings at 31 December 2003 are given below:

	Country of incorporation or registration	Percentage of issued share capital held
Cavell Management Services Limited	England	25
Peter Blem Adjusters Limited	England	25 *

\* Peter Blem Adjusters Limited is 100% owned by Cavell Management Services Limited.

The companies became associated undertakings on 17 December 2003 following the group's disposal of 75% of its previously wholly-owned investment in Cavell Management Services Limited.

The above undertakings are both insurance related service companies.

## 19 Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
<b>Other debtors</b>				
<i>Due within one year</i>				
Amounts due from joint venture investors	-	9,392	-	9,392
Other debtors	<u>485</u>	<u>363</u>	<u>255</u>	<u>59</u>
	<u>485</u>	<u>9,755</u>	<u>255</u>	<u>9,451</u>
<b>Amounts owed by group undertakings</b>				
Due within one year	<u>8,369</u>	<u>-</u>	<u>8,369</u>	<u>23</u>

## 20 Intangible assets

	2003 £'000	2002 £'000
<i>Negative goodwill</i>		
<i>Cost</i>		
Balance 1 January	(57)	(57)
Additions during the year	(822)	-
Disposal of group undertakings	57	-
Balance 31 December	<u>(822)</u>	<u>(57)</u>
<i>Amounts written off</i>		
Balance 1 January	57	57
Transferred to profit and loss account	822	-
Disposal of group undertakings	(57)	-
Balance at 31 December	<u>822</u>	<u>57</u>
Net book value at 31 December	<u>-</u>	<u>-</u>

## Notes to the Financial Statements

## 21 Tangible assets

	Computer Equipment	Fixtures, fittings and Furniture	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
<i>Cost</i>				
At beginning of year	474	103	105	682
Additions	101	29	-	130
Disposed of with subsidiary undertakings	(575)	(132)	(105)	(812)
<b>At end of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Depreciation</i>				
At beginning of year	(459)	(103)	(77)	(639)
Charge for year	(48)	(6)	(20)	(74)
Disposed of with subsidiary undertakings	507	109	97	713
<b>At end of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net book value</i>				
<b>At end of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At beginning of year	<u>15</u>	<u>-</u>	<u>28</u>	<u>43</u>

## 22 Share capital

	2003 £'000	2002 £'000
<i>Authorised</i>		
55,000,000 ordinary shares of £1 each	<u>55,000</u>	<u>55,000</u>
<i>Allotted, called up and fully paid</i>		
26,432,500 'A' ordinary shares of £1 each	<u>26,433</u>	<u>26,433</u>
26,432,500 'B' ordinary shares of £1 each	<u>26,432</u>	<u>26,432</u>
1,635,000 'C' ordinary shares of £1 each	<u>1,635</u>	<u>1,635</u>
	<u>54,500</u>	<u>54,500</u>



## Notes to the Financial Statements

## 23 Shareholders' funds

<i>Group</i>	Share capital £'000	Share premium £'000	Profit & loss a/c £'000	Total £'000
2003				
Balance at 1 January	54,500	700	7,088	62,288
Currency translation differences	-	-	1,546	1,546
Retained loss for the financial year	-	-	(4,126)	(4,126)
Balance at 31 December	<u>54,500</u>	<u>700</u>	<u>4,508</u>	<u>59,708</u>
2002				
Balance at 1 January	54,500	700	(4,363)	50,837
Currency translation differences	-	-	575	575
Retained profit for the financial year	-	-	10,876	10,876
Balance at 31 December	<u>54,500</u>	<u>700</u>	<u>7,088</u>	<u>62,288</u>
<i>Company</i>	Share capital £'000	Share premium £'000	Profit & loss a/c £'000	Total £'000
2003				
Balance at 1 January	54,500	700	7,026	62,226
Retained loss for the financial year	-	-	(8,349)	(8,349)
Revaluation of investments	-	-	5,831	5,831
Balance at 31 December	<u>54,500</u>	<u>700</u>	<u>4,508</u>	<u>59,708</u>
2002				
Balance at 1 January	54,500	700	(3,001)	52,199
Retained profit for the financial year	-	-	112	112
Revaluation of investments	-	-	9,915	9,915
Balance at 31 December	<u>54,500</u>	<u>700</u>	<u>7,026</u>	<u>62,226</u>

## Notes to the Financial Statements

## 24 Other creditors including taxation and social security

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Social security	-	119	-	-
Proposed dividend	8,369	-	8,369	-
Other creditors	1,228	676	8	-
	<u>9,597</u>	<u>795</u>	<u>8,377</u>	<u>-</u>

## 25 Financial commitments

The operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:

	2003		2002	
	Land & Buildings	Other	Land & Buildings	Other
	£'000	£'000	£'000	£'000
Within one year	-	-	-	41
Between one and five years	-	-	-	3
After five years	-	-	333	-
	<u>-</u>	<u>-</u>	<u>333</u>	<u>44</u>

## 26 Contingent liabilities

An indemnity is in force between Cavell Holdings Limited and the Institute of London Underwriters in respect of former membership of the Institute by a group undertaking which has since been sold. It is not possible to indicate with certainty the level of any liability which may arise from this indemnity.

## 27 Gross cash flows

	2003	2002
	£'000	£'000
<b>Taxation</b>		
UK Corporation tax repaid	-	9
Overseas tax repaid	41	22
Overseas tax paid	(663)	(332)
	<u>(622)</u>	<u>(301)</u>
<b>Capital expenditure and financial investment</b>		
Payments to acquire tangible assets	(130)	(1)
Receipts from sales of tangible assets	16	7
Receipts from sale of leasehold property	-	210
Receipts from repayments of loans secured by mortgages	26	10
	<u>(88)</u>	<u>226</u>
<b>Acquisitions and disposals</b>		
Net cash disposed of with group undertakings	(703)	-
Payments to acquire shares in subsidiary undertaking	(11,428)	-
	<u>(12,131)</u>	<u>-</u>

## Notes to the Financial Statements

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

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	5,342	14,492
Realised investment losses	452	370
Unrealised investment losses/(gains)	1,353	(348)
Decrease in provision for claims outstanding	(5,737)	(18,277)
Increase/decrease in debtors	(168)	25,819
Increase/(decrease) in creditors	1,739	(4,658)
(Increase)/decrease in deposits with ceding undertakings	(104)	242
Increase/(decrease) in deposits received from reinsurers	2	(29)
Depreciation	74	54
Profit on sales of tangible assets	(8)	(10)
Negative goodwill written back	(822)	-
Profit on sales of leasehold property	-	(87)
Realised exchange gains	455	344
Loss on disposal of subsidiary undertaking	274	-
Net cash inflow from operating activities	<u>2,851</u>	<u>17,912</u>

## 29 Movement in cash and portfolio investments

	At 1 Jan 2003 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 Dec 2003 £'000
Cash at bank and other cash instruments	30,243	(3,670)	(55)	26,518
Bank overdrafts	(35)	35	-	-
Shares and other variable yield securities and units in unit trusts	2,021	-	267	2,288
Debt securities and fixed income securities	100,970	(6,355)	(1,895)	92,720
	<u>133,199</u>	<u>(9,990)</u>	<u>(1,683)</u>	<u>121,526</u>

## Notes to the Financial Statements

## 30 Accounting for pension costs

During the year the Group participated in four pension schemes, three of which were defined contribution schemes and one of which was a defined benefit scheme.

The pension schemes related to Cavell Management Services and its subsidiary, Peter Blem Adjusters Limited. The Group disposed of its majority shareholding in Cavell Management Services Limited during the year and therefore there is no FRS17 information to be disclosed other than that noted below.

The cost of providing pensions charged to the profit and loss account were:

	2003 £'000	2002 £'000
Defined contribution schemes	126	148
Defined benefit schemes	171	215
	<u>297</u>	<u>363</u>

## 31 Related party transactions

During the year the Company disposed of 75% of its investment in Cavell Management Services Limited and Peter Blem Adjusters Limited to Randall & Quilter Investment Holdings Limited for consideration of US\$400,000. Randall & Quilter Investment Holdings Limited is controlled by Mr K E Randall, a director of the Group. Other related party transactions are as follows:

- (i) Norwich Union Holdings p.l.c., Winterthur Swiss Insurance Company Limited and Aioi Insurance Company of Europe Limited were the shareholders of the Cavell Holdings Limited, until 28 January 2003. During the year the Group received rental income from these companies and their subsidiaries amounting to £340,000 (2002 - £351,000), and purchased management services from them amounting to £11,000 (2002 - £147,000). On 9 January 2003 Norwich Union Holdings p.l.c. repaid a balance due to the Group of £9,392,000.
- (ii) Dukes Place Holdings LP ("Dukes Place") has been the parent undertaking of Cavell Holdings Limited since 28 January 2003. On 28 January 2003 Cavell Holdings Limited loaned Duke's Place £8,000,000. Interest amounting to £369,000 was payable on this loan during the year and was added to the value of the loan as at 31 December 2003. The loan is repayable on demand, and is expected to be cancelled during 2004 in effective payment of the proposed dividend for 2003 of a corresponding amount. Also on 28 January 2003, Cavell Holdings Limited purchased Dukes Place's 22.481% shareholding in Cavell Insurance Company Limited for consideration of £11,428,000.
- (iii) Unione Italiana (U.K.) Reinsurance Company Limited ("Unione") is a subsidiary of Dukes Place, which has been the parent undertaking of Cavell Holdings Limited since 28 January 2003. During the year the Group provided management services to Unione amounting to £573,000 (2002 - Nil). At 31 December 2003 the Group owed Unione £71,000 (2002 - £Nil), relating to tax losses surrendered by Unione.

The Company has taken advantage of the exemption under Financial Reporting Standard 8 from disclosing, in consolidated financial statements, any transactions or balances between group entities that have been eliminated on consolidation.

## 32 Post balance sheet event

Cavell Insurance Company Limited has agreed to acquire 100% of the issued share capital of Cirrus Reinsurance Company Ltd AS from IF Skadeförsäkring AB (Publ) for consideration of Nkr 48,000,000. Cirrus Reinsurance Company Limited AS is domiciled in Norway and completion of the transaction is subject to the consent of the Norwegian Ministry of Finance.

**Notes to the Financial Statements**

**33 Holding company**

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

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