ASCOT UNDERWRITING LIMITED

NO. 04098461

REPORT & ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2003

Directors' Report for the year ended 31 December 2003

The directors present their report and audited financial statements for the year ended 31 December 2003.

Principal Activities

Ascot Underwriting Limited is the Managing Agent for Syndicate 1414 at Lloyd's. The company is a wholly owned subsidiary of Ascot Underwriting Holdings Limited (AUHL).

Directors and Officers

The current directors are listed below. There were no appointments or resignations during the year, except where stated otherwise.

<u>**Director**</u>

The Rt. Hon. Lord Prior P.C.	Non Executive Chairman	
Richard David Henry Brindle	Non Executive	
Mark James Donald		
David Allen Edward		
Daniel Scott Glaser	Non Executive	Appointed 25 November 2003
Alexander John Ramsay Mackay		
Homi Phiroz Rustom Mullan	Non Executive	
Martin Robert Davidson Reith		
John Charles Crichton Slipper		
Andrew Robert Stears		
Martin John Sullivan	Non Executive	
Thomas Ralph Tizzio	Non Executive	
David Peter Trezies	Non Executive	Appointed 25 November 2003
Andrew Lewis Brooks		Appointed 24 February 2004

Charitable Donations

During the year the company made donations for charitable purposes of £10,000 (2002: £nil).

Review of Business and Future Developments

The company trades as the Managing Agent of Syndicate 1414 at Lloyd's. The capital for the Syndicate is provided exclusively by Ascot Corporate Name Limited.

Under the terms of the Agency agreement, the Company charges a fixed percentage of the Syndicate's underwriting capacity as an agency fee, as well as receiving profit commission at a fixed percentage of the profits made by the syndicate.

The Company made significant cost savings across numerous business areas. Many of these savings result from the Company's use of third-party outsourcing suppliers, enabling it to benefit from economies of scale, depth of experience and flexibility.

The directors are pleased to announce pre-tax profits of £14,264,291 for 2003 (2002 - £1,498,035).

Should market conditions remain favourable during 2004, the Syndicate may grow to meet the continuing demand for quality underwriting capital within the Lloyd's market. The cost base of the Company is not expected to grow to the same extent as the managed capacity in 2004. Accordingly the directors have reduced the 2004 agency fee to 0.4% of the Syndicate's final 2004 year of account capacity. This represents a reduction from 0.5% that was charged in 2003.

Dividends

The directors propose the payment of a dividend of 340.8p per share for the year ended 31 December 2003 (2002 - 60p).

Directors' Report for the year (continued)

Statement of directors' responsibilities

The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business. Company law requires the directors to prepare financial statements for each financial year, that 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 year.

The directors confirm that suitable accounting policies have been used which are consistent with accounting standards as explained on page 6 under note 1 "Accounting policies" with the exception of changes arising on the adoption of new accounting standards in the year. The directors also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

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

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their reappointment will be submitted at the annual general meeting.

On behalf of the Board

A.J.R. Mackay
Director

J.C.C. Slipper
Director

7 April 2004

Independent Auditors' report to the Members of Ascot Underwriting Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared in accordance with the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.*

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state affairs of the company at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

7 April 2004

Profit and Loss Account for the year ended

31 December 2003

	Notes	2003 £	2002 (restated) £
Turnover	3	15,206,783	2,963,358
Administrative expenses		(977,594)	(1,468,453)
Operating profit	4	14,229,189	1,494,905
Interest receivable and similar income	5	37,077	15,332
Interest payable and similar charges	6	(1,975)	(12,202)
Profit on ordinary activities before tax		14,264,291	1,498,035
Tax on profit on ordinary activities	7	(4,415,979)	(435,570)
Profit on ordinary activities after tax		9,848,312	1,062,465
Ordinary dividends on equity shares	8	(1,363,200)	(240,000)
Retained profit for the year		8,485,112	822,465

The profit and loss account has been prepared on the basis that all operations are continuing.

There were no recognised gains or losses during the year other than those shown above.

The notes on pages 6 to 11 form an integral part of these financial statements.

Balance Sheet

31 December 2003

	Notes	2003 £	2003 £	2002 £	2002 *(restated)* £
Debtors: Amounts receivable in more than one year			13,080,300		945,858
Current assets					
Debtors	9	1,376,638		3,077	
Cash at bank and in hand	10	1,237,840		962,737	
			2,614,478		965,814
Creditors: Amounts falling due within one year	11		(6,138,548)		(840,554)
Net current (liabilities)/assets			(3,524,070)		125,260
Net assets			9,556,230		1,071,118
Capital & reserves					
Share capital	12		400,000		400,000
Profit and loss account	14		9,156,230		671,118
Shareholders' funds	13		9,556,230		1,071,118

The notes on pages 6 to 11 form an integral part of these financial statements.

On behalf of the Board

A.J.R. Mackay
Director

J.C.C. Slipper
Director

7 April 2004

Notes to the financial statements

1. Accounting policies

Basis of presentation

These financial statements have been prepared on a going-concern basis, under the historical cost convention and in accordance with the accounting policies set out below. In selecting appropriate accounting policies and the disclosures needed to help users to understand the accounting policies adopted and how they have been applied, consideration has been given to the provisions of Financial Reporting Standard 18 'Accounting Policies'.

Changes in Accounting Policy

During the year the Group has adopted Amendment to Financial Reporting Standard 5, 'Reporting the substance of Transactions' ("FRS 5 Application Note G"). The effect of the adoption has been to accelerate revenue recognition of the profit commission as set out in the turnover note below. Previously such revenues were recognised when a year of account closed.

The effect on continuing operations of implementing FRS 5 Application Note G was to increase revenue and operating profits for the year by £13,080,300 (2002: £945,858) and to increase the tax charge by £3,924,090 (2002: £283,757) and to increase net assets at 31 December 2003 by £9,156,210 (2002: £662,101). This is shown in further detail in note 13.

The provisions of FRS 19 'Deferred Tax' have been adopted for the first time in these financial statements. As a consequence, full provision has been made for deferred tax on tax assets and liabilities arising on timing difficulties. The effect of this change in accounting policy is disclosed in note 7.

Turnover

Turnover from agency fees is recognised during the first year of each underwriting year of account. Turnover from profit commission is recognised when receivable, on closing years and is also recognised when there is reasonable certainty that profit commission will be received on open years. This is in line with the Revenue Recognition Provisions of Financial Reporting Standard 5 *Reporting the substance of financial transactions as amended in November 2003*. Their basis of calculation is set out in note 3 below. Prior year figures have been restated accordingly.

Administrative expenses

All expenses are charged on an incurred basis. The great majority of expenses are recharged from Ascot Underwriting Holdings Limited. A small amount of expenses are paid directly by the Company.

Interest receivable and payable

Interest is recognised in the accounts in the period to which it relates.

Shareholders' dividends

Dividends are accrued in the period to which they relate regardless of when they are declared.

Taxation

Current tax expense is charged or credited to operations based upon amounts payable or recoverable as a result of taxable operations for the current year. Where there are losses in any one year they can be carried back for one year or carried forward indefinitely to be offset against profits arising.

Notes to the financial statements (continued)

Lease commitments

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

Pension costs

Costs relating to directors' and staff pensions are accounted for in the period that they fall due.

2. Cashflow statement

The company is consolidated into the financial statements of Ascot Underwriting Holdings Limited which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1 (Revised 1996) *Cash Flow Statements.*

3. Turnover

Operating income is derived from two sources. Firstly, an agency fee which is charged to the Syndicate. The fee is set at 0.5% (2002 - 0.75%) of the final managed capacity of the Syndicate. Secondly, profit commission is charged at 16.25% (2002 - 16.25%) of the profit of the Syndicate and is recognised as set out in Note 1.

	2003 £	**2002 (restated)** £
Agency Fee	1,700,000	2,017,500
Profit Commission - closed year 2001 (at 31.12.03)	426,483	945,858
Profit Commission - open year 2002 (at 31.12.03)	13,080,300	-
	15,206,783	2,963,358

4. Operating profit

Operating profit is stated after charging:

	2003 £	**2002** £
Directors' remuneration	254,143	218,430
Staff salaries	512,910	288,920
Legal & professional fees	114,455	721,930
Auditors' remuneration	2,500	7,500

No fees (2002: nil) have been paid to PricewaterhouseCoopers LLP for non-audit services.

5. Interest receivable and similar income

Interest receivable relates to amounts earned from the Company's business call account and from liquid assets held in AAA-rated money market funds.

6. Interest payable and similar charges

Interest payable relates to accrued interest payable on corporation tax.

Notes to the financial statements (continued)

7. Taxation

(a) **Analysis of charge in the period**

	2003 £	2002 (restated) £
UK corporation tax at 30%		
Current tax on income for the period	4,283,228	435,570
Adjustments in respect of prior periods	132,751	-
	4,415,979	435,570

(b) ***Factors affecting tax charge for the period***

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £	2002 (restated) £
Profit on ordinary activities before taxation	14,264,291	1,498,035
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	4,279,287	449,410
Income not taxable in respect of tax purposes (2002 - £68,607 x 30%)	-	(20,582)
Expenses not deductible in respect of tax purposes £13,137 x 30% (2002 - £22,473 x 30%)	3,941	6,742
Current tax on income for the period	4,283,228	435,570
Adjustments to tax charge in respect of previous periods	132,751	-
Current tax charge for the period	4,415,979	435,570

8. Ordinary dividends on equity shares

For the year ended 31 December 2003, the directors are proposing a dividend of 340.8p per share (2002 - 60p).

9. Debtors

	2003 £	2002 £
Recoverable VAT	328	-
Accrued interest	3,969	3,077
Prepayments and accrued income	1,372,341	-
	1,376,638	3,077

All amounts are due within one year.

Notes to the financial statements (continued)

10. Cash at bank and in hand

Cash holdings at the balance sheet date constituted:

	2003	2002
	£	£
Cash at bank	67	3,984
AIM Global Money Market Fund	1,237,773	958,753
	1,237,840	962,737

11. Creditors: Amounts falling due within one year

	2003	2002
	£	£
Amounts due to Parent	203,888	157,484
Accruals and deferred income	4,475	7,500
Corporation tax payable	4,566,985	435,570
Dividend payable	1,363,200	240,000
	6,138,548	840,554

12. Called up share capital

The issued share capital is wholly owned by the company's parent, Ascot Underwriting Holdings Limited.

At 31 December 2003 and 31 December 2002	**Authorised**	**Called-up & Fully paid**
	£	£
400,000 ordinary shares of £1 each	400,000	400,000

13. Reconciliation in movement of shareholders' funds

	£
Opening shareholders funds previously stated	409,017
Effect of prior year adjustment	662,101
Opening shareholders' funds restated	1,071,118
Profit for the year	9,848,312
Ordinary dividends on equity shares	(1,363,200)
Closing shareholders' funds	9,556,230

The prior year adjustment relates to the implementation of FRS 5 Application Note G.

14. Reserves

	2003
	£
Opening balance	9,017
Effect of prior year adjustment	662,101
Opening balance restated	671,118
Retained profit	8,485,112
Closing balance	9,156,230

Notes to the financial statements (continued)

15. Staff Costs and numbers

	2003 £	2002 £
Wages & salaries	512,910	288,920
Social security costs	61,681	28,315
Other pension costs	17,549	16,038
	592,140	333,273

Average number of employees by category:

	2003 No.	2002 No.
Administration	5	4
Claims	1	1
Executive Management	1	1
Finance	3	2
Operations and IT	10	6
Underwriting	17	13
	37	27

16. Directors' remuneration

Aggregate emoluments for the company directors are as follows:

	2003 £	2002 £
Directors' emoluments	254,143	218,430
Contributions to company pension	8,835	10,592
	262,978	229,022

No director was paid more than £200,000 by the company for the year ended 31 December 2003.

17. Operating leases

Annual commitments retained by the Company under operating leases that expire:

	Land and Buildings	
	2003 £	2002 £
In one year	-	-
In two to five years	23,694	23,050
In more than five years	-	-

This represents the share of the operating lease costs that are not recharged to Syndicate 1414.

Notes to the financial statements (continued)

18. Pension Costs

The company operates a defined contribution pension scheme for all employees that have completed a specified length of service or as stipulated by their employment contract. Amounts disclosed in notes 15 and 16 for pension contributions relate to expenditure retained by the company.

Other than amounts expensed in the profit and loss account and disclosed in notes 15 and 16, the company has no additional assets or liabilities arising from accounting treatments defined under Financial Reporting Standard 17 *Accounting for Retirement Benefits.*

19. Related party transactions

Expenses are recharged to the company from its parent, Ascot Underwriting Holdings Limited. All amounts due to the parent at the balance sheet date (note 11) relate to amounts outstanding for this recharged expenditure.

All of the directors of Ascot Underwriting Holdings Limited are also on the Board of its subsidiary, Ascot Underwriting Limited. Mr M R D Reith, a director of both Ascot Underwriting Holdings Limited and Ascot Underwriting Limited is also the Active Underwriter of Syndicate 1414.

There are no other material related party transactions during the year.