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HISCOX HOLDINGS LIMITED

**REPORT AND ACCOUNTS
31 DECEMBER 2003**



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HISCOX HOLDINGS LIMITED

DIRECTORS AND ADVISORS

Directors

Robert Ralph Scrymgeour Hiscox (*Chairman*)

Robert Simon Childs

Alexander Neil Foster

Stephen Hargreaves Hall (*non-executive*)

Bronislaw Edmund Masojada

Ian Nicholas Thomson

Secretary

Gavin Stuart Watson

Registered Office

1 Great St Helen's

London

EC3A 6HX

Registered Number:

2203521

Auditors

KPMG Audit Plc

8 Salisbury Square

London

EC4Y 8BB

Bankers

Lloyds TSB Bank plc

113-116 Leadenhall Street

London

EC3A 4AX

HISCOX HOLDINGS LIMITED

DIRECTORS' REPORT

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

Principal activity and business review

The Company is a holding company for Lloyd's underwriting agency interests.

The profit for the year after taxation was £2,507,000 (2002: £4,993,000). The directors recommend a final dividend of £2,500,000 (2002: £5,000,000) leaving £7,000 to be transferred to the Company's reserves (2002: £7,000 from reserves).

Directors

The names of the directors of the Company during the period of this report are listed on page 1 of these accounts. The directors have no interests in the shares of the Company, nor in any shares of any other Group company other than in the ultimate holding company. The interests of the directors in the ultimate holding company, who are also directors of the ultimate holding company, are shown in the consolidated financial statements of Hiscox plc. The interests of those directors, who are not directors of the ultimate holding company, in the ordinary shares of the ultimate holding company are set out in note 12 to the accounts.

Statement of directors' responsibilities

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 as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

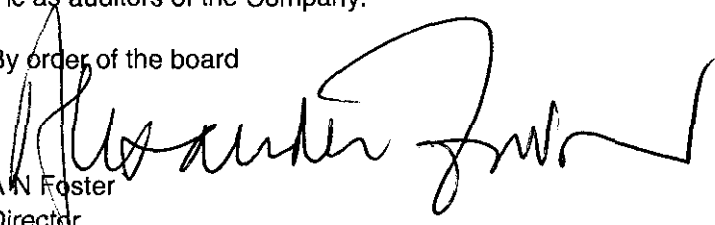
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 provisions of 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.

Auditors

A resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the Company.

By order of the board



A N Foster

Director

1 Great St Helen's
London, EC3A 6HX
26 July 2004

HISCOX HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT

To the members of Hiscox Holdings Limited

We have audited the financial statements on pages 4 to 11.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs 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.


KPMG Audit Plc
Chartered Accountants
Registered Auditor

London

28 July 2004

HISCOX HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Operating expenses		(7)	(5)
Operating loss	3	(7)	(5)
Income from other fixed asset investments		16	-
Income from shares in Group undertakings		2,500	5,000
Other interest and similar income		2	1
Profit on ordinary activities before taxation		2,511	4,996
Tax on profit on ordinary activities	4	(4)	(3)
Profit on ordinary activities after taxation		2,507	4,993
Dividends		(2,500)	(5,000)
Retained profit/(loss) for the financial year	10	7	(7)

All of the operations of the Company are continuing.

The notes on pages 6 to 11 form part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2003 £000	2002 £000
Profit after tax	2,507	4,993
Unrealised losses on investments	-	(322)
Total recognised gains for the period	2,507	4,671

HISCOX HOLDINGS LIMITED

BALANCE SHEET

as at 31 December 2003

	Note	2003 £000	2002 £000
Fixed assets			
Intangible fixed assets	5	32	34
Investments	6	4,046	4,782
		<u>4,078</u>	<u>4,816</u>
Current assets			
Debtors	7	3,073	16
Cash at bank and in hand		5	29
		<u>3,078</u>	<u>45</u>
Creditors: amounts falling due within one year	8	(6,335)	(4,047)
Net current liabilities		<u>(3,257)</u>	<u>(4,002)</u>
Total assets less current liabilities		<u>821</u>	<u>814</u>
Capital and reserves			
Called up share capital:			
- Equity shareholders' funds	9	341	341
- Non-equity shareholders' funds	9	17	17
Share premium account	10	257	257
Revaluation reserve	10	49	131
Profit and loss account	10	157	68
Shareholders' funds		<u>821</u>	<u>814</u>

The notes on pages 6 to 11 form part of these accounts.

The financial statements on pages 4 to 11 were approved by the board of directors on 26 July 2004.

A N Foster
Director

HISCOX HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards as at 31 December 2003 and under the historical cost accounting rules, modified by the revaluation of investments.

2 Accounting policies

a) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences, except for which no provision is permissible as explained below, that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

b) Related party transactions

As the Company is a wholly owned subsidiary undertaking of Hiscox plc, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 "Related Party Disclosures" and has not disclosed transactions or balances with entities that form part of the Group. The consolidated financial statements of Hiscox plc can be obtained from the Company Secretary, Hiscox plc, 1 Great St Helen's, London, EC3A 6HX.

HISCOX HOLDINGS LIMITED

NOTES TO THE ACCOUNTS *continued*

2 Accounting policies *continued*

c) *Investments*

Investments in Group undertakings and associates are stated at cost less provision for impairment in value.

Other financial investments (comprising shares held in Hiscox plc) are held at the value attributable to them under the long term incentive plan to which they relate.

d) *Consolidated financial statements*

Consolidated financial statements have not been prepared as the Company is a wholly owned subsidiary undertaking of Hiscox plc, a Company incorporated and registered in England and Wales. The Company is therefore exempt under Section 228 of Companies Act 1985 from the obligation to prepare and deliver consolidated financial statements.

e) *Cash flow statement*

As the Company is a wholly owned subsidiary undertaking of Hiscox plc, the Company has taken advantage of the exemption contained in Financial Reporting Standard 1 "Cash Flow Statements", as revised, and therefore has not prepared a cash flow statement.

f) *Goodwill*

In accordance with FRS 10 "Goodwill and intangible assets" goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of net assets acquired, is capitalised in the balance sheet and amortised on a straight-line basis over its useful economic life which is considered to not exceed 20 years. Provision is made for any impairment. On the disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

3 Operating loss

	2003	2002
	£000	£000

Operating loss is stated after charging:

Auditors' remuneration:

- Statutory audit fee	2	2
Amortisation of goodwill	2	2

No staff were employed by the Company during the year (2002:nil). Employees of Hiscox Underwriting Group Services Limited provided services to the Company during the year. No charge is made for these services.

HISCOX HOLDINGS LIMITED

NOTES TO THE ACCOUNTS *continued*

4 Taxation

	2003 £000	2002 £000
Current Tax		
UK corporation tax on profits of the period	4	-
Adjustment in respect of previous periods	-	3
Total current tax on profit on ordinary activities	<u>4</u>	<u>3</u>

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2003 £000	2002 £000
Profit on ordinary activities before tax	<u>2,511</u>	<u>4,996</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	753	1,499
Expenses not deductible for tax purposes	1	1
Investment income – not taxable	(750)	(1,500)
Adjustments to tax charge in respect of previous periods	-	3
Current tax charge for the period	<u>4</u>	<u>3</u>

5 Intangible fixed assets : Goodwill on acquisition of subsidiary

	£000
Cost:	
At 1 January 2003	39
Additions	-
At 31 December 2003	<u>39</u>
Amortisation:	
At 1 January 2003	(5)
Charge for year	(2)
At 31 December 2003	<u>(7)</u>
Net book value at 31 December 2003	<u>32</u>
Net book value at 31 December 2002	<u>34</u>

HISCOX HOLDINGS LIMITED

NOTES TO THE ACCOUNTS *continued*

6 Investments

	Investments in subsidiary undertakings £000	Other financial investments £000	Total £000
Cost or valuation			
1 January 2003	3,611	1,171	4,782
Disposal proceeds	-	(736)	(736)
Movement in revaluation reserve	-	(82)	(82)
Realised gain on disposal	-	82	82
31 December 2003	<u>3,611</u>	<u>435</u>	<u>4,046</u>

Other financial investments relate to shares held in the ultimate holding company, Hiscox plc. These shares are listed on a recognised stock exchange. They have a book cost of £386,488 (2002: £1,039,478).

	<i>Country of registration of incorporation and operation</i>	<i>Class of share</i>	<i>Proportion of voting rights held</i>	<i>Nature of business</i>
Subsidiary undertakings (unlisted)				
Hiscox Syndicates Ltd	England	Ordinary	100%	Lloyd's Underwriting agent
Hiscox Underwriting Ltd	England	"A" & "B" ordinary	100%	Underwriting agency
Payne Hiscox Ltd	England	Ordinary	100%	Dormant
Roberts & Hiscox (Underwriting Agencies) Ltd	England	Ordinary	100%	Dormant
Hiscox International Holdings BV	Netherlands	Ordinary	100%*	Insurance holding company
Hiscox AG	Germany	Ordinary	100%*	Underwriting agency
Hiscox Assurances Services SARL	France	Ordinary	100%*	Underwriting agency
Hiscox Insurance Company (Guernsey) Ltd	Guernsey	Ordinary	100%*	Insurance company
Hiscox Investment Holdings Ltd	England	Ordinary	100%*	Insurance holding company
Hiscox BV	Netherlands	Ordinary	100%*	Underwriting agency
Hiscox NV	Belgium	Ordinary	100%*	Underwriting agency

**Held indirectly*

HISCOX HOLDINGS LIMITED

NOTES TO THE ACCOUNTS *continued*

7 Debtors

	2003 £000	2002 £000
Corporation tax recoverable from Group companies	12	16
Amounts due from Group companies	3,061	-
	<u>3,073</u>	<u>16</u>

The Company is part of a Group Payment Arrangement for corporation tax purposes and accordingly tax balances are settled by the ultimate parent company, Hiscox plc. The corporation tax balances disclosed above represent amounts surrendered or received from Group companies as part of this process.

8 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Amounts owed to Group companies	6,310	4,007
Other creditors	25	40
	<u>6,335</u>	<u>4,047</u>

9 Called up share capital

	2003		2002	
	Number of shares	£000	Number of Shares	£000
Authorised share capital:				
Dollar deferred shares of US\$0.01 each	3,100,000	20	3,100,000	20
Ordinary shares of 10p each	10,000,000	1,000	10,000,000	1,000
	<u>13,100,000</u>	<u>1,020</u>	<u>13,100,000</u>	<u>1,020</u>
Allotted, called up and fully paid share capital:				
Dollar deferred shares of US\$0.01 each	2,584,874	17	2,584,874	17
Ordinary shares of 10p each	3,408,000	341	3,408,000	341
	<u>5,992,874</u>	<u>358</u>	<u>5,992,874</u>	<u>358</u>

The Dollar deferred shares have no voting rights. The Dollar deferred shareholders are not entitled to receive any dividends. On liquidation the Dollar deferred shareholder will only receive a return of their capital investment after the ordinary shareholders have been repaid.

HISCOX HOLDINGS LIMITED

NOTES TO THE ACCOUNTS *continued*

10 Reconciliation of movement in shareholders' funds

	<i>Share capital</i> £000	<i>Share premium account</i> £000	<i>Revaluation reserve</i> £000	<i>Profit and loss account</i> £000	Total £000
At 1 January 2003	358	257	131	68	814
Realised gain on investments	-	-	(82)	82	-
Retained profit for the financial year	-	-	-	7	7
At 31 December 2003	<u>358</u>	<u>257</u>	<u>49</u>	<u>157</u>	<u>821</u>

11 Directors' emoluments

All the executive directors of the Company are employed by Hiscox Underwriting Group Services Limited. The Company has not been charged for their services, nor for those services of the non-executive directors. All the executive directors are members of a defined benefit pension scheme.

12 Directors' interests

The interest of those directors who are not directors of the ultimate holding company, in the ordinary shares of the ultimate holding company as at 31 December 2003 and at 1 January 2003 were:

	31 December 2003		1 January 2003	
	5p Ordinary shares Number of shares Beneficial	5p Ordinary Shares Number of shares Non-beneficial	5p Ordinary shares Number of shares Beneficial	5p Ordinary Shares Number of shares Non-beneficial
I N Thomson	9,315,786	-	8,590,260	-
A N Foster	2,730,999	11,479,391	2,720,000	11,784,391

Hiscox Trustees Limited is the trustee of the Hiscox plc group employee share ownership plan trust (ESOP) and at 31 December 2003 was interested in 313,368 (2002: 255,466) ordinary shares of Hiscox plc. The directors are potential beneficiaries of the ESOP and are deemed to have an additional interest in these shares.

13 Ultimate holding company

The ultimate holding company and controlling party which heads both the largest and smallest group of undertakings for which group financial statements are prepared is Hiscox plc, which is a limited company registered in England and Wales.

A copy of the consolidated financial statements of Hiscox plc may be obtained from the Company Secretary, Hiscox plc, 1 Great St Helen's, London, EC3A 6HX.