

HIGHWAY INSURANCE AGENCY LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2007

COMPANY REGISTRATION NUMBER 3072449

THURSDAY



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DIRECTORS' REPORT - BUSINESS REVIEW

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2007

PRINCIPAL OPERATIONS

The Company manages the motor insurer Highway Insurance on behalf of Lloyd's Syndicates 37 and 2037 and Highway Insurance Company Limited
Syndicates 37 and 2037 ceased to underwrite new business on the 31 December 2002

On 31 July 2007 Court approval was obtained for the transfer of the business of Lloyd's Syndicates 37 and 2037 to Highway Insurance Company Limited, pursuant to Part VII of the Financial Services and Markets Act 2000 (the 'Transfer')
The effective date of the Transfer was 2 August 2007

RESULTS AND DIVIDENDS

The profit for the year to 31 December 2007 after taxation amounted to £nil (2006 £1 322 173)
A dividend of £226,160 (2006 £1,100,000) was paid in the year thus £226,160 has been transferred from reserves (2006 £222,173 transfer from reserves)

DIRECTORS

- P M J Fraser (Resigned 31 December 2007)
- P J Gallagher
- * C Hill
- R Kelsey
- * A Milton
- D W Murray (Resigned 31 May 2007)
- * Director of the ultimate holding company, Highway Insurance Holdings Plc

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss for the financial period

The directors consider that in preparing the financial statements on pages 4 to 9 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed These accounts have been prepared on a realisation basis

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

FINANCIAL INSTRUMENTS

The company does not enter into any hedging transactions The company has limited exposure to price risk, credit risk, liquidity risk and cash flow risk

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

We have taken all the necessary steps to make us aware, as directors, of any relevant audit information and to establish that the auditors are aware of this information

As far as the directors are aware there is no relevant audit information of which the company's auditors are unaware

By Order of the Board



Philip Lampshire
Secretary

Highway House
171 Kings Road Brentwood
Essex CM14 4EJ
17 March 2008

INDEPENDENT AUDITORS' REPORT

to the member of Highway Insurance Agency Limited

We have audited the financial statements of Highway Insurance Agency Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's member 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 member those matters we are required to state to it 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 member 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 misstatement within it.

Basis of audit opinion

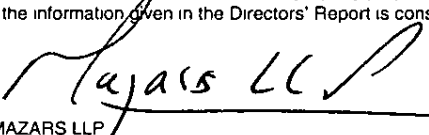
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its result for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors' Report is consistent with the financial statements



MAZARS LLP
Chartered accountants and Registered Auditors
Tower Bridge House
St Katharine's Way
London
E1W 1DD
17 March 2008

PROFIT AND LOSS ACCOUNT

Year to 31 December 2007

	Note	2007 £	2006 £
TURNOVER	2	-	2 102 670
Operating expenses	4	-	(12 400)
OPERATING PROFIT		-	2 090 270
Net interest payable	5	-	(201,452)
PROFIT BEFORE TAXATION		-	1,888 818
Taxation	6	-	(566 645)
PROFIT FOR THE YEAR		-	1,322,173

There were no recognised gains and losses other than the profit attributable to shareholders of £nil for the year to 31st December 2007 (2006 £1,322,173)

BALANCE SHEET

As at 31 December 2007

	Note	2007 £	2006 £
CURRENT ASSETS			
Debtors - amounts falling due within one year	8	400,000	2,676,962
Cash and short term deposits		-	174
		400 000	2 677,136
CURRENT LIABILITIES			
Creditors - amounts falling due within one year	9	-	(2,050 976)
		400,000	626 160
NET CURRENT ASSETS			
		400 000	626 160
TOTAL ASSETS LESS CURRENT LIABILITIES			
		400 000	626 160
NET ASSETS			
		400,000	626 160
CAPITAL AND RESERVES			
Called-up equity share capital	10	400,000	400,000
Profit and loss account	12	-	226,160
		400,000	626,160
TOTAL SHAREHOLDER'S FUNDS - EQUITY			
	11	400,000	626,160

Approved by the board of directors and signed on its behalf on 17 March 2008 by


A Milton
Director

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

(a) Accounting convention

The audited financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention. These accounts have been prepared on a realisation basis.

(b) Deferred taxation

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

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

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

(c) Turnover

Turnover consists of underwriting agency fees and profit commission from Highway Insurance Company and Lloyds syndicates which ceased trading in 2002.

(d) Lloyd's underwriting agency fees

These represent net fee income receivable from Names at Lloyd's Highway Insurance Company and from the co insurance agreement with the New Hampshire Insurance Company.

(e) Cash Flow Statements

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

(f) Investments

Investments are stated at cost less amounts written off.

2 SEGMENTAL INFORMATION

Turnover and operating profit arise principally in the United Kingdom, from business underwritten by Highway Insurance Company Limited and previously underwritten by Lloyd's Syndicates, on behalf of Names resident in the United Kingdom and overseas, which have ceased trading.

Turnover

	2007 £	2006 £
Agency fees	-	2,102,670
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	-	2,102,670
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NOTES TO THE FINANCIAL STATEMENTS - continued

3 DIRECTORS AND EMPLOYEES

Staff costs (including directors)

The Company has no employees (2006 - Nil)

The emoluments of the executive directors were paid by Highway Insurance Holdings Plc or Highway Group Services PLC and are included in the accounts of this Company as allocated costs within other expenses

4 OPERATING EXPENSES

	2007 £	2006 £
Operating expenses include		
Auditors' fees for the year (all in respect of audit services)	-	10 500

Auditor's remuneration for 2007 was borne by the ultimate holding company

5 NET INTEREST PAYABLE

	2007 £	2006 £
Bank interest	-	(4)
Interest payable on loan from holding company	-	201,456
	-	201,452

6 TAXATION

a) UK Corporation tax	2007 £	2006 £
Current year	-	566,645
Prior year	-	
Total current tax	-	566,645

b) Factors affecting tax charge for the period	2007 £	2006 £
Profit on ordinary activities before tax	-	1 888 818
Profit on ordinary activities before tax @ 30%	-	566 645
Effects of Group Relief Received	-	(566,645)
Payment for Group Relief Received	-	566,645
Total current tax	-	566,645

UK corporation tax has been provided at an effective rate of 30% (2006 30%)

NOTES TO THE FINANCIAL STATEMENTS - continued

7 DIVIDENDS

	2007 £	2006 £
Amounts recognised as distributions to equity holders in the period		
2007 interim dividend paid of nil (2006 2 75p)	-	1 100 000
2007 final dividend paid of 0 57p (2006 nil)	226 160	-
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	226,160	1 100,000
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8 DEBTORS - amounts falling due within one year

	2007 £	2006 £
Loan to Highway Direct Ltd	-	400,000
Amounts due from Highway Group Services PLC	400,000	2,178 969
Accrued income	-	97,993
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	400,000	2,676,962
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9 CREDITORS - amounts falling due within one year

	2007 £	2006 £
Amounts due to Highway Direct Limited	-	1 100 000
Amounts due to Highway Insurance Holdings Plc	-	372,581
Accruals	-	11,750
Corporation tax	-	566,645
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	-	2,050,976
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10 CALLED-UP EQUITY SHARE CAPITAL

	2007 £	2006 £
Authorised		
Equity 400,000 ordinary shares of £1 each	400,000	400 000
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Allotted, issued and fully paid		
Equity 400 000 ordinary shares of £1 each	400,000	400,000
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NOTES TO THE FINANCIAL STATEMENTS - continued

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2007 £	2006 £
Profit for the financial year	-	1,322,173
Dividends Paid	(226,160)	(1,100,000)
Net addition/(reduction) to shareholder's funds	(226,160)	222,173
Shareholder's funds at beginning of the year	626,160	403,987
Shareholder's funds at end of the year	400,000	626,160

12 RESERVES

	2007 £	2006 £
Retained Profit for the Year	-	1,322,173
Dividends	(226,160)	(1,100,000)
	(226,160)	222,173
At 1 January	226,160	3,987
At 31 December	-	226,160

13 RELATED PARTY TRANSACTIONS

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

14 GROUP ACCOUNTS

On 28 November 2007, ownership of the Company was transferred from Highway Direct Limited to Highway Group Services Plc (both companies being registered in England and Wales). Both of these companies are exempt from the requirement to produce group accounts as permitted by Section 228 of the Companies Act 1985. Copies of that company's financial statements may be obtained from Highway House 171 Kings Road Brentwood, Essex CM14 4EJ

The Company is included in the group accounts of its ultimate holding company, Highway Insurance Holdings Plc, a company registered in England and Wales. Copies of that company's financial statements may be obtained from Highway House 171 Kings Road, Brentwood, Essex CM14 4EJ