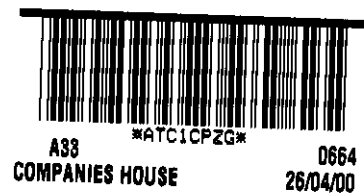


HARDY INSURANCE SERVICES LIMITED

ANNUAL REPORT
YEAR ENDED 31 DECEMBER 1999

(Company Number 3075206)



HARDY INSURANCE SERVICES LIMITED

ANNUAL REPORT YEAR ENDED 31 DECEMBER 1999

CONTENTS	PAGE
DIRECTORS' REPORT	1
STATEMENT OF DIRECTORS' RESPONSIBILITIES	3
AUDITORS' REPORT	4
PROFIT AND LOSS ACCOUNT	5
BALANCE SHEET	6
NOTES AND ACCOUNTING POLICIES	7

HARDY INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

The directors submit their report and the audited financial statements of the Company for the year ended 31 December 1999.

Activities and Business Review

The principal activities of the Company are to provide in house consultancy, risk studies and claims survey work to Syndicate 382. Hardy Insurance Services Limited also undertakes additional third party claims work and risk studies on an opportunity basis. The Company received £53,890 (1998: £59,165) from Syndicate 382 for work done during the year and £59,365 (1998: £71,644) in fees from the consortium arrangement with Syndicate 490/2490.

The Company also received brokerage of £20,431 on business placed with Syndicate 382 through a binding authority given to the Company by the Syndicate in July 1999.

Dividends

The directors do not propose the payment of a dividend (1998: £ nil) and recommend the balance of £26,818 be transferred to reserves.

Directors

The following were directors of the Company during the year:

P.W. Hardy
S.N. Wadman
M.T.A. Sugden
S.W.P. Weldon
M.C. Holmes
L. Santambrogio

The directors have the following interests in the shares of Hardy Underwriting Group plc ('HUG'):

	1 January 1999		31 December 1999	
	Ordinary Shares	Share Options	Ordinary Shares	Share Options
P.W. Hardy *	2,317,862	-	2,424,462	7,272
S.N. Wadman	341,544	24,000	352,544	31,272
M.T.A. Sugden	137,681	22,000	137,681	29,272
S.W.P. Weldon	283,902	22,000	283,902	29,272
M.C. Holmes	530	10,000	530	10,000
L. Santambrogio	-	-	-	-

* includes a holding by Mr. Hardy's personal pension fund.

There were no share options exercised during the year.

Messrs. Sugden and Homes have been granted 22,000 and 10,000 options to acquire HUG shares under the HUG unapproved share option scheme on 20 December 1996. The options are exercisable up to the seventh anniversary of their grant at an exercise price of £1.45 per share. In addition, Mr. Sugden was granted 7,272 options to acquire HUG shares under the HUG approved share scheme on 29 March 1999. These options are exercisable up to the tenth anniversary of their grant at an exercise price of £1.375 per share.

Details about the options of the other directors are provided in the financial statements of HUG.

HARDY INSURANCE SERVICES LIMITED

DIRECTORS' REPORT (continued)

Year 2000

The Company is part of Hardy Underwriting Group plc ('the Group') which participates in the Lloyd's Market Compliance Scheme and has received validation certificates. The directors are confident that the Group's internal information technology is compliant with regard to the Year 2000 and have obtained assurances from the Group's principal suppliers. The costs of achieving compliance have not been material for the Group.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing the re-appointment of KPMG Audit Plc as auditors of the Company will be put to the Annual General Meeting.

Lloyd's
Lime Street
London EC3M 7DQ

By order of the board



T. HUTCHINGS
Company Secretary

18 April 2000

HARDY INSURANCE SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and 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 financial statements on a 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and prevent and detect fraud and other irregularities.

HARDY INSURANCE SERVICES LIMITED

AUDITORS' REPORT TO THE MEMBERS OF HARDY INSURANCE SERVICES LIMITED

We have audited the financial statements on pages 5 to 10.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 3, 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 Practice 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. 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 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 the 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 as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

18 April 2000

HARDY INSURANCE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT For the year ended 31 December 1999

	Notes	1999 £	1998 £
Turnover	2	133,686	130,809
Administrative expenses	3, 4 & 5	(96,124)	(86,722)
Operating profit		37,562	44,087
Interest & similar Income	6	847	-
Profit on ordinary activities before taxation		38,409	44,087
Tax on ordinary activities	7	(11,591)	(2,000)
Retained profit for the year		26,818	42,087
Balance brought forward		2,852	(39,235)
Balance carried forward		29,670	2,852

All profits are derived from continuing activities.

There are no recognised gains or losses other than those in the profit and loss account.

HARDY INSURANCE SERVICES LIMITED

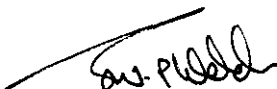
BALANCE SHEET As at 31 December 1999

	Notes	1999 £	1998 £
CURRENT ASSETS			
Debtors	8	130,825	61,124
Cash at bank		25,503	3,127
		<hr/>	<hr/>
		156,328	64,251
CURRENT LIABILITIES			
Creditors	9	(126,558)	(61,299)
		<hr/>	<hr/>
NET ASSETS		29,770	2,952
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	10	100	100
Profit and loss account		29,670	2,852
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	11	29,770	2,952
		<hr/>	<hr/>

The financial statements were approved by the board on 18 April 2000 and issued on behalf of the board by:

P.W. HARDY
Director

P.W. Hardy


S.W.P. WELDON
Director

HARDY INSURANCE SERVICES LIMITED

NOTES AND ACCOUNTING POLICIES

1. ACCOUNTING POLICIES

- (a) The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

- (b) Interest is credited when receivable.
- (c) Overhead expenses are written off as incurred.
- (d) The Company contributes to a defined contribution pension schemes for directors and executives. The assets of each scheme are held separately from those of the Company either through an insurance contract or in an independently administered fund. The amount charged against profit represents the contributions payable to the scheme in respect of the accounting period.

2. TURNOVER

Turnover comprises amounts derived from: risk studies and loss adjusting work carried for Syndicate 382 and other parties; brokerage from a binding authority granted to the Company by Syndicate 382; and fees from a consortium arrangement between Syndicate 382 and Syndicate 490.

	1999 £	1998 £
Brokerage Income	20,431	-
Consortium Income	59,365	71,644
Risk Studies	1,580	10,529
Claims Work	33,918	30,123
Refund of expenses	18,392	18,513
	<u>133,686</u>	<u>130,809</u>

All turnover derives from activities in the United Kingdom.

3. ADMINISTRATIVE EXPENSES

Administrative expenses comprise:

	£	£
Directors' remuneration (including NICs)	47,163	37,594
Other staff costs	11,647	8,723
Audit fee	-	(3,500)
Other expenses	37,314	43,905
	<u>96,124</u>	<u>86,722</u>

The Company is part of Hardy Underwriting Group plc and the audit costs are borne by the holding company.

HARDY INSURANCE SERVICES LIMITED

NOTES AND ACCOUNTING POLICIES (continued)

4. STAFF COSTS

The costs of employment were as follows:

	1999 £	1998 £
Wages and salaries	44,045	34,652
Social security costs	4,958	3,723
Other pension costs	8,579	7,102
Other employment costs	1,228	840
	<u>58,810</u>	<u>46,317</u>

All the staff working for the Company are employed by Hardy (Underwriting Agencies) Limited, a fellow subsidiary of Hardy Underwriting Group plc.

5. DIRECTORS' EMOLUMENTS

The total directors' emoluments were as follows:

	£	£
Directors emoluments	35,928	28,486
Company contributions to money purchase pension schemes in respect of all six directors	7,164	6,048
	<u>43,092</u>	<u>34,534</u>

6. INTEREST AND SIMILAR INCOME

	£	£
Bank interest	847	-
	<u>847</u>	<u>-</u>

7. TAXATION

	£	£
Corporation tax for year at 30.25% (1998: 31%)	12,000	2,000
Prior year adjustment	(409)	-
	<u>11,591</u>	<u>2,000</u>

HARDY INSURANCE SERVICES LIMITED

NOTES AND ACCOUNTING POLICIES (continued)

8. DEBTORS

	1999 £	1998 £
Amounts falling due within one year		
Trade debtors	128,167	57,973
Prepayments and accrued income	2,658	3,151
	<u>130,825</u>	<u>61,124</u>

9. CREDITORS

	£	£
Amounts falling due within one year		
Trade creditors	75,006	-
Corporation tax	12,000	2,000
VAT	2,289	1,569
Other creditors	263	242
Amounts owed to Group undertakings	37,000	57,488
	<u>126,558</u>	<u>61,299</u>

10. CALLED UP SHARE CAPITAL

	£	£
Authorised, allotted and fully paid		
100 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

11. RECONCILIATION OF THE MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital account £	Profit & loss account £	Equity shareholders' funds £
Balance at 31 December 1997	100	(39,235)	(39,135)
Profit after tax for the year	-	42,087	42,087
Balance at 31 December 1998	<u>100</u>	<u>2,852</u>	<u>2,952</u>
Profit after tax for the year	-	26,818	26,818
Balance at 31 December 1999	<u>100</u>	<u>29,670</u>	<u>29,770</u>

HARDY INSURANCE SERVICES LIMITED

NOTES AND ACCOUNTING POLICIES (continued)

12. RELATED PARTIES

As a wholly owned subsidiary of Hardy Underwriting Group plc, the Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with companies which form part of the Group. All disclosures are made in the financial statements of Hardy Underwriting Group plc.

13. PENSIONS

The Company contributes to defined contribution pension schemes. The pension costs charge for the year represents contributions payable to these funds and amounted to £8,579 (1998: £7,102). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

14. PARENT COMPANY

The Company became is subsidiary of Hardy Underwriting Group plc, a Company registered in England and Wales. Copies of the financial statements of Hardy Underwriting Group plc, which is the smallest and largest group into which the results of the Company are consolidated, may be obtained from the Registered Office of the Company.