

HCC ACQUISITIONS (U.K.) LIMITED

FINANCIAL STATEMENTS

Year ended 31 December 2003



Walsingham House
35 Seething Lane
London EC3N 4AH

HCC ACQUISITIONS (U.K.) LIMITED

DIRECTORS	BJ Cook RL Hughes CL Martin CLC Manchester BRA Merriman
SECRETARY	RL Hughes
REGISTERED NUMBER	3671966
REGISTERED OFFICE	Walsingham House 35, Seething Lane London EC3N 4AH
SOLICITORS	Kendall Freeman 43, Fetter Lane London EC4A 1JU
AUDITORS	PricewaterhouseCoopers LLP Southwark Towers 32, London Bridge Street London SE1 9SY

HCC ACQUISITIONS (U.K.) LIMITED

CONTENTS

	Page
Report of the directors	3
Report of the auditors	5
Consolidated profit and loss account	6
Consolidated balance sheet	7
Company balance sheet	8
Accounting policies	9
Notes to the financial statements	11

HCC ACQUISITIONS (U.K.) LIMITED REPORT OF THE DIRECTORS

The directors present their report for the year ended 31 December 2003.

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 then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year;
- 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 confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for maintaining 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 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.

Directors

The directors set out in the table below have held office during the period unless otherwise stated

BJ Cook
RL Hughes
GJ Lockett (resigned 19 November 2003)
CLC Manchester (appointed 22 January 2004)
CL Martin
BRA Merriman

Some of the directors of the company have interests in shares, and options over shares, in the ultimate parent company, HCC Insurance Holdings Inc., details of which they are not required to disclose by reason of The Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802).

Principal activity and review of the business

The company acts as a holding company. The principal subsidiaries, Rattner Mackenzie Limited and Dickson Manchester & Co. Ltd., are specialist Lloyd's brokers, the former transacting mainly Accident & Health and Non-Marine insurance and reinsurance and the latter Professional Indemnity. In 2004 Dickson Manchester and Co Ltd has split off its binding authority operations and transferred them to HCC Diversified Financial Products Ltd (formerly Dickson Manchester Underwriting Ltd.). The administration of the continuing broking operations will be handled by Rattner Mackenzie Ltd.

Results and dividends

The result for the period is shown in the profit and loss account on page 6. An interim dividend of US\$2,000,000 was paid in the year and the directors do not recommend the payment of a final dividend.

HCC ACQUISITIONS (U.K.) LIMITED
REPORT OF THE DIRECTORS

Charitable contributions

The group contributed US\$ 1,636 to The Pilgrim's Hospice and \$1,047 to Oxfam (2002 US\$ Nil).

Post balance sheet events

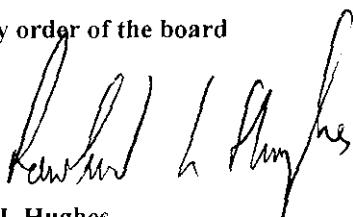
On 6 January 2004 the company sold its entire holding in Pepys Holdings Ltd to its subsidiary undertaking HCC Specialty Holdings (No. 1) Ltd for consideration of 1,000 Ordinary Shares in HCC Specialty Holdings (No. 1) Ltd. On the same day, with respect to the Loan Note originally for US\$55,000,000 held by its parent company, HCC Insurance Holdings Inc., it agreed that the charge in favour of the Noteholder was discharged. On 31 March 2004 the company entered into a Deed of Variation in respect of that loan whereby the term of that loan was extended by five years to 2009 and it is no longer repayable on demand.

On 01 April 2004 the company acquired the entire share capital of HCC Europe Seguros y Reaseguros, S.A. for a payment of €16,545,258 and assumption of Intergroup loans of €23,500,000; on the same day this holding was sold by a share-for-share sale to its subsidiary undertaking HCC Specialty Holdings (No. 1) Ltd which in turn sold it by a share-for-share sale to HCC Specialty Holdings (No. 2) Ltd. Liability for the debt has been retained by this company.

Auditors

The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office and a resolution proposing their re-appointment will be put to the annual general meeting.

By order of the board



RL Hughes
Secretary
Walsingham House
35, Seething Lane
London EC3N 4AH

30 September 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HCC ACQUISITIONS (U.K.) 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 under the historical cost convention and 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 of affairs of the company and the group 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors
32, London Bridge Street,
London SE1 9SY

30 September 2004

HCC ACQUISITIONS (U.K.) LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003	Notes	Year ended 31 December 2003 US\$	Year ended 31 December 2002 US\$
Revenue			
Turnover	1	33,649,478	17,709,733
Interest and investment income		916,679	844,525
Other income		776,414	27,194
		<hr/>	<hr/>
		35,342,571	18,581,452
Expenses			
Salaries and associated expenses	3,4	(14,690,377)	(6,616,055)
Other expenses		(13,680,780)	(7,663,291)
		<hr/>	<hr/>
		(28,371,157)	(14,279,346)
Operating profit		<hr/>	<hr/>
		6,971,414	4,302,106
Interest payable	5	(1,779,628)	(1,626,785)
Loss on disposal of fixed assets		(16,383)	-
		<hr/>	<hr/>
Profit on ordinary activities before taxation	2	5,175,403	2,675,321
Taxation on profit on ordinary activities	6	(3,090,476)	(1,672,501)
Non-equity minority interests		(5)	(4)
		<hr/>	<hr/>
Profit for the year		2,084,922	1,002,816
Dividends payable	7	(2,000,000)	-
		<hr/>	<hr/>
Retained profit for the year	24	84,922	1,002,816
		<hr/>	<hr/>

The group's turnover and expenses all relate to continuing operations.

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

Profit for the year		2,084,927	1,002,820
Exchange adjustments arising on consolidation	24	652,690	-
		<hr/>	<hr/>
Total gains recognised since last annual report		2,737,617	1,002,820
		<hr/>	<hr/>

HCC ACQUISITIONS (U.K.) LIMITED
CONSOLIDATED BALANCE SHEET

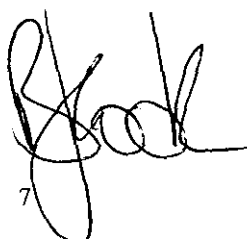
As at 31 December 2003

	Notes	31 December 2003 US\$	31 December 2002 US\$
Assets employed			
Fixed assets			
Intangible assets			
Goodwill arising on consolidation	8	75,329,762	66,178,974
Negative goodwill	8	(243,179)	(382,139)
		<hr/>	<hr/>
		75,086,583	65,796,835
Tangible assets	10	1,279,354	1,119,051
		<hr/>	<hr/>
		76,365,937	66,915,886
Current assets			
Debtors	13	393,060,449	299,667,749
Investments	14	24,067,558	20,761
Cash and deposits		46,508,559	68,159,164
		<hr/>	<hr/>
		463,636,566	367,847,674
Creditors: amounts falling due within one year	15	(501,691,710)	(414,433,751)
		<hr/>	<hr/>
Net current liabilities		(38,055,144)	(46,586,077)
		<hr/>	<hr/>
Total assets less current liabilities		38,310,793	20,329,809
Creditors: amounts falling due after more than one year	15	(17,297,386)	-
Provision for liabilities and charges	16	(527,288)	(578,087)
		<hr/>	<hr/>
Net assets		20,486,119	19,751,722
		<hr/>	<hr/>
Financed by			
Shareholders' funds			
Called-up share capital	18, 24	16,252,870	16,252,870
Unrealised profits / (losses) on investments	24	-	(1,016)
Profit and loss account	24	4,233,249	3,495,637
		<hr/>	<hr/>
Total shareholders' funds - equity	24	20,486,119	19,747,491
Non-equity minority interests		-	4,231
		<hr/>	<hr/>
Capital employed		20,486,119	19,751,722
		<hr/>	<hr/>

Authorised by the board
and signed on its behalf by

30 September 2004

BJ Cook
Chairman



As at 31 December 2003

Assets employed

Investments in group undertakings

11	88,499,700	71,280,000
----	------------	------------

Debtors

13	25,144	16,852.504
----	--------	------------

Cash and deposits

98,560	97,739
--------	--------

123,704	16,950,243
---------	------------

Creditors: amounts falling due within one year

15	(43,746,148)	(64,372,305)
----	--------------	--------------

(43,622,444) (47,422,062)

44,877,256	23,857,938
------------	------------

Creditors: amounts falling due after more than one year

15 (17,219,700)

27,657,556	23,857,938
------------	------------

Shareholders' funds

Called-up share capital

18, 24	16,252,870	16,252,870
--------	------------	------------

Profit and loss account

24	11,404,686	7,605,068
----	------------	-----------

27,657,556	23,857,938
------------	------------

Authorised by the board
and signed on its behalf by

BJ Cook
Chairman

30 September 2004

8

HCC ACQUISITIONS (U.K.) LIMITED ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards and on the going concern basis as explained below. The policies are consistent with prior years.

The financial statements are prepared on the going concern basis despite the existence of net current liabilities arising from the classification of inter-group debt as a current liability due to its being repayable on demand. In 2004 the terms of this loan were amended to extend the period to 2009 and to remove the requirement for repayment on demand. Accordingly the directors believe that the preparation of the financial statements on the going concern basis is appropriate.

During 2003 the group has adopted the requirements of Amendment to Financial Reporting Standard 5 "Reporting the substance of Transactions" ("FRS 5 Application Note G"). The adoption of these requirements had no impact on the current or prior year reported amounts.

Reporting currency

A substantial proportion of the group's income and certain expenses are paid in US Dollars. The group is also financed largely in US Dollars with inter-group debt and pays dividends in US Dollars having exchanged the £ Sterling declared dividends into US Dollars for remittance purposes. Additionally the ultimate parent of this company and its subsidiaries is based in the USA and all group reporting is in US Dollars. In the opinion of the directors the US Dollar is the currency of the primary economic environment in which the group operates; accordingly the accounts are prepared using the US Dollar as the reporting currency.

Basis of consolidation

The consolidated financial statements comprise the accounts of the company and its subsidiary undertakings. No separate profit and loss account is presented for the company as permitted by S.230 of the Companies Act 1985.

In accordance with Financial Reporting Standard (FRS) 1 para 5(a) the group is exempt from producing a cashflow statement as it is wholly owned by HCC Insurance Holdings Inc. whose consolidated financial statements contain a cashflow statement incorporating the results and cashflows of this group and those financial statements are publicly available.

Revenue

The group generates revenue principally from commissions and fees associated with placing insurance and reinsurance contracts. Revenues generated in this way are recognised at the point at which placement services are substantially complete, ordinarily at the point when the debit note is issued. Revenues from commissions and fees on adjustments to minimum premiums, binding authorities and treaties are recognised on a periodic basis when the revenue is confirmed by third parties. Profit commissions are recognised at the point at which they can be reliably measured. Interest on deposits and fixed interest investments is credited as it is earned. Income from other investments is credited when it is received.

Exchange rate

The company and the group record transactions in currencies other than their reporting currency ("foreign" currencies) at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Contracts for the sale of future revenue to be received in foreign currencies are accounted for on maturity. Monetary assets and liabilities in foreign currencies, other than those hedged forward, are translated at the rates ruling at the balance sheet date which for £ Sterling was \$1.7785 (31 December, 2002 \$1.6044).

For entities where the accounting records are maintained in US Dollars, daily rates have been applied to transactions in foreign currencies included in the profit and loss account.

Pensions

Pension costs are charged against profits on a systematic basis relating to the current level of premiums rendered to the group's pension providers on a defined contribution basis; these are calculated individually for every member of staff.

HCC ACQUISITIONS (U.K.) LIMITED

ACCOUNTING POLICIES

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings is carried on the balance sheet. Positive goodwill is amortised on a straight-line basis over its useful economic life. Negative goodwill is written back to the profit and loss account over the period expected to benefit from that negative goodwill. The carrying value of all goodwill is reviewed regularly for impairment.

Tangible assets

All tangible assets are stated at cost less accumulated depreciation.

Depreciation is calculated to write-off the cost of fixed assets less estimated residual value on a straight-line basis over their estimated useful lives at the following annual rates. During the year a change was made in that new assets are depreciated commencing with the month of acquisition, previously a full year's charge was made in the year of acquisition; this was done to bring the company into alignment with group accounting policies and the impact on the profit for the year is not material.

Fixtures and fittings	15% and 20%
Office equipment	20%
Computers	20% and 33%
Vehicles	25%

Investments

Investments are stated at the lower of cost and net realisable value.

Insurance debtors and creditors

Two subsidiaries act as agents in broking the insurable risks of clients and, generally speaking, are not liable as a principal for premiums due to underwriters or for claims payable to clients. Notwithstanding the legal relationship with clients and underwriters the companies have followed generally accepted accounting practice for insurance intermediaries by showing debtors, creditors and cash balances relating to insurance business as assets and liabilities of the companies themselves. In the ordinary course of insurance broking business, settlement is required to be made with certain market settlement bureaux, insurance intermediaries or insurance companies on the basis of the net balance due to or from them rather than the amount due to or from the individual third-parties which it represents. Under FRS5 assets and liabilities may not be offset unless net settlement is legally enforceable therefore insurance debtors and creditors are shown gross within these financial statements.

Deferred taxation

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Provision is made at the taxation rate at which it is anticipated any asset or liability might crystallise.

Operating and financial leases

Rentals payable under operating leases are charged to the profit and loss account in the period in which they are payable. Assets obtained under finance leases are capitalised in the balance sheet and are depreciated over their useful lives; the interest element of the obligations is charged to the profit and loss account in the period in which it is payable.

Claims servicing

Provision is made for the cost of the group's constructive obligation to service future claims arising from insurance placed for clients by the year end.

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

1. Turnover	31 December 2003	31 December 2002
	US\$	US\$
Analysis by geographic location of client:		
United Kingdom	19,265,728	3,375,962
United States of America	13,109,045	13,517,813
Canada	760,917	494,076
Europe	362,939	29,985
Caribbean	101,591	232,693
Other	49,258	59,204

The turnover derives from the principal activity of insurance broking.	33,649,478	17,709,733
--	------------	------------

2. Profit on ordinary activities before taxation	31 December 2003	31 December 2002
	US\$	US\$
Profit on ordinary activities before taxation of the group is stated after charging:		
Auditors remuneration: group audit fees	128,596	75,488
other services	2,799	4,802
Amortisation of goodwill arising on consolidation (note 8)	4,340,777	2,999,417
Depreciation of tangible fixed assets (note 10)	562,691	180,291
Operating lease rentals: land and buildings	1,073,626	442,856
other	224,591	179,860
Gains / (losses) on exchange		
Arising from trading transactions	11,207	(544,832)
Arising from changes in financial position	(200,833)	(23,373)

Audit fees attributable to the company were US\$18,674 (31 December 2002 US\$9,625).

The parent company's profit for the year was US\$3,799,618 (31 December 2002 US\$65,871).

3. Directors' remuneration	31 December 2003	31 December 2002
	US\$	US\$
Remuneration		
Emoluments	1,080,525	935,704
Contributions to money purchase pension schemes	284,550	281,647
Compensation for loss of office	621,018	-

The emoluments of directors disclosed above include the following amounts

Paid to the highest paid director :		
Emoluments	420,054	426,127
Contributions to money purchase pension schemes	55,247	173,312
Compensation for loss of office	621,018	-

During the period three (2002 three) directors accrued benefits under money purchase pension schemes

The emoluments of Mr. BRA Merriman and Mr. CL Martin are paid by fellow subsidiaries of the ultimate parent company and their emoluments are deemed to be wholly attributable to the services they perform for these other companies. No recharge of these emoluments is made to the company and accordingly the above details include no emoluments in respect of these directors.

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

4. Staff costs

31 December 2003 **31 December 2002**
US\$ **US\$**

Wages and salaries	11,933,952	5,073,593
Social security costs	1,333,361	610,412
Other pension costs (note 21)	1,423,064	932,050
	<hr/>	<hr/>
	14,690,377	6,616,055
	<hr/>	<hr/>

The average number of persons employed by the group, including Directors, during the period was as follows:

31 December 2003 **31 December 2002**

Insurance broking	156	99
	<hr/>	<hr/>

5. Interest payable

31 December 2003 **31 December 2002**
US\$ **US\$**

Interest payable on loans from parent undertaking	1,712,548	1,626,785
Interest payable on loan notes to Manchester Dickson former shareholders	63,228	-
Other interest payable	3,852	-
	<hr/>	<hr/>
	1,779,628	1,626,785
	<hr/>	<hr/>

6. Taxation

31 December 2003 **31 December 2002**
US\$ **US\$**

(a) Analysis of charge in year

UK Corporation tax on profits of the year	2,962,709	1,646,876
Adjustments in respect of prior years	18,589	(1,245)
	<hr/>	<hr/>
Total current tax	2,981,298	1,645,631
Deferred taxation (note 12)	109,178	26,870
	<hr/>	<hr/>
Tax on profits on ordinary activities	3,090,476	1,672,501
	<hr/>	<hr/>

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

6. Taxation (cont'd)

	31 December 2003	31 December 2002
	US\$	US\$
(b) Factors affecting tax charge for year		
Profit on ordinary activities before tax	5,175,403	2,675,321
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	1,552,609	802,596
Effects of:-		
Tax on disallowed items	218,865	85,385
Difference between depreciation and capital allowances	12,439	(15,972)
Adjustment for tax on amortisation of goodwill arising on consolidation	1,255,436	899,825
Adjustments in respect of prior years	18,589	(955)
Other	(76,640)	(125,248)
	<hr/>	<hr/>
Current tax charge	2,981,298	1,645,631
Deferred taxation (note 12)	109,178	26,870
	<hr/>	<hr/>
Charge per Profit and Loss account	3,090,476	1,672,501
	<hr/>	<hr/>

7. Dividends

	31 December 2003		31 December 2002	
	Cents per Share	Total \$	Cents per Share	Total \$
Interim dividend	19.901715	2,000,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	19.901715	2,000,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

8. Intangible fixed assets	Negative goodwill US\$	Goodwill US\$	Total US\$
Cost			
At 31 December 2002	(694,798)	75,662,886	74,968,088
Additions (note 9)	-	13,575,068	13,575,068
Reductions (note 9)		(4,231)	(4,231)
	<hr/>	<hr/>	<hr/>
At 31 December 2003	(694,798)	89,233,723	88,538,925
	<hr/>	<hr/>	<hr/>
Amortisation			
At 31 December 2002	(312,659)	9,483,912	9,171,253
Charge for the year	(138,960)	4,420,049	4,281,089
	<hr/>	<hr/>	<hr/>
At 31 December 2003	(451,619)	13,903,961	13,452,342
	<hr/>	<hr/>	<hr/>
Net book amount			
At 31 December 2002	(382,139)	66,178,974	65,796,835
At 31 December 2003	(243,179)	75,329,762	75,086,583

The goodwill arising on the acquisition of Pepys Holdings Limited, Manchester Dickson Holdings Ltd. and Profind Insurance Services Ltd. is being amortised on a straight-line basis over 20 years and the negative goodwill arising on the acquisition of Rattner Mackenzie Limited (RML) (JEC) over 5 years, these being the periods over which the directors estimate that the values of the underlying businesses acquired are expected to exceed / remain below the value of the underlying assets.

9. Acquisitions and other movements in intangible fixed assets

On 30 June 2003 Dickson Manchester & Co. Ltd. acquired by way of purchase the entire share capital of Profind Ltd. No adjustments were required to the book values of the assets and liabilities of the company in order to present the net assets of the company at fair value in accordance with group accounting policies.

On 30 December 2003 the group parent company HCC Insurance Holdings Inc transferred for Nil consideration its 2,550 £1 Preference shares in Pepys Holdings Ltd to this company. This reduced goodwill by their book value of \$4,231.

At 31 December 2003 provisional agreement had been reached to settle the earnout agreement with the former shareholders of Manchester Dickson Holdings Ltd. which was acquired in 2002. Additional consideration has been accrued in accordance with this agreement. As the settlement is to be in £ Sterling the year end rate of exchange has been used.

Profind Ltd. acquisition	Fair value US\$
Tangible assets	57,849
Cash	322,126
Debtors	97,449
Creditors	(270,865)
	<hr/> (4,376)
Fair value of net assets acquired	202,183
Goodwill recorded in the books of Dickson Manchester & Co. Ltd.	1,483,400
	<hr/>
Consideration	1,685,583
	<hr/>

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

9. Acquisitions and other movements in intangible fixed assets (cont'd)

Manchester Dickson Holdings Ltd. acquisition	US\$
Cost of goodwill b/f	12,895,377
	<hr/>
Additional acquisition expenses paid	86,793
Settlement of earnout	12,004,875
	<hr/>
Total additions	12,091,668
	<hr/>
Cost of goodwill c/f	24,987,045
	<hr/>
Summary of additions	US\$
Dickson Manchester & Co. Ltd.	12,091,668
Profind Insurance Services Ltd.	1,483,400
	<hr/>
Total additions	13,575,068
	<hr/>

The turnover and profit before tax of Profind's post acquisition activities are not separately identifiable, however, the impact of the overall results of the group was not material

10. Tangible fixed assets	Vehicles US\$	Fittings & fixtures US\$	Office equipment US\$	Computers US\$	Total US\$
Cost					
At 31 December 2002	11,492	1,173,789	1,050,798	1,612,025	3,848,104
Additions	-	1,968	113,745	574,466	690,179
Acquired assets	-	15,803	90,877	-	105,960
Disposals	(11,492)	(15,803)	(29,230)	(83,424)	(139,229)
At 31 December 2003	-	1,175,757	1,226,190	2,103,067	4,505,014
Depreciation					
At 31 December 2002	1,094	1,076,932	647,087	1,003,938	2,729,051
Provided	2,598	84,069	143,801	332,223	562,691
On assets acquired	-	2,156	45,955	-	48,111
Disposals	(3,692)	(2,156)	(25,774)	(82,571)	(114,193)
At 31 December 2003	-	1,161,001	811,069	1,253,590	3,225,660
Net book value					
At 31 December 2002	10,398	96,857	403,711	608,087	1,119,053
At 31 December 2003	-	14,756	415,121	849,477	1,279,354

HCC Acquisitions (U.K.) Limited holds no tangible fixed assets.

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

11. Fixed asset investments	31 December 2003	31 December 2002
	US\$	US\$
Shares in group undertakings:		
Pepys Holdings Limited	88,499,700	71,280,000

HCC Acquisitions (U.K.) Limited owns 100% of the shares of the above subsidiary. The company is registered in England and Wales. The increase in value is attributable to the issue of 17,219,700 US\$ shares in the company, issued at par.

12. Deferred tax	Balance 1 January 2003 US\$	Acquisitions US\$	Profit and Loss Account US\$	Balance 31 December 2003 US\$
Group				
Realisable within one year				
Accelerated tax depreciation - liability acquired on acquisition of Profind Insurance Services Ltd. on 30 June 2003		(4,589)	4,589	-
Realisable after more than one year				
Timing differences	4,213	-	527	4,740
Accelerated tax depreciation	31,868	-	(114,294)	(82,426)
	<hr/>	<hr/>	<hr/>	<hr/>
	36,081	(4,589)	(109,178)	(77,686)
	<hr/>	<hr/>	<hr/>	<hr/>

13. Debtors	Group 31 December 2003 US\$	Group 31 December 2002 US\$	Company 31 December 2003 US\$	Company 31 December 2002 US\$
Amounts falling due within one year:				
Insurance broking debtors: related undertakings	23,746,295	34,807,497	-	-
other	366,629,615	262,712,049	-	-
Amounts owed by group undertakings	1,373,990	901,754	25,144	16,852,504
Other debtors	358,218	270,419	-	-
Prepayments and accrued income	883,919	859,725	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	392,992,037	299,551,444	25,144	16,852,504
Amounts falling due after one year:				
Other debtors	68,412	80,224	-	-
Deferred tax (note 12)	-	36,081	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	393,060,449	299,667,749	25,144	16,852,504
	<hr/>	<hr/>	<hr/>	<hr/>

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

14. Cash and investments

	31 December 2003 \$	31 December 2002 \$
Insurance Broking Account monies included in investments and cash at bank and in hand	64,334,204	60,735,847

15. Creditors

	Group 31 December 2003 US\$	Group 31 December 2002 US\$	Company 31 December 2003 US\$	Company 31 December 2002 US\$
Amounts falling due within one year:				
Insurance broking creditors: related undertakings	78,907,183	60,155,368	-	-
other	360,428,299	281,276,067	-	-
Amounts owed to group undertakings	46,178,069	65,032,827	43,727,474	64,362,678
Other creditors	12,928,895	5,522,506	18,674	9,627
Corporation tax	1,044,767	1,511,913	-	-
Social Security and other amounts	77,942	41,073	-	-
Accruals and deferred income	2,126,555	893,997	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	501,691,710	414,433,751	43,746,148	64,372,305
	<hr/>	<hr/>	<hr/>	<hr/>
Amounts falling due after more than one year:				
Amounts owed to group undertakings	17,219,700	-	17,219,700	-
Deferred tax (note 12)	77,686	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	17,297,386	-	17,219,700	-
	<hr/>	<hr/>	<hr/>	<hr/>

Included in amounts falling due within one year - amounts owed to group undertakings is US\$43,702,083 (2002 US\$47,439,198) in respect of a Secured Loan Note issued to HCC Insurance Holdings Inc. on 23 December, 1999 and repayable on, or before, 23 December, 2004; carrying interest at variable rates based on LIBOR. Subsequent to the year end the term of this loan was extended to 2009.

Amounts falling due after more than one year - amounts owed to group undertakings consists of an Unsecured Loan Note issued to HCC Insurance Holdings Inc. incepting on 1 March 2003, repayable on or before 28 February 2010 and paying interest at variable rates based on LIBOR.

16. Provisions for liabilities and charges

	Balance 1 January 2003 US\$	Profit and Loss Account US\$	Balance 31 December 2003 US\$
Group			
Provision for future claims processing	578,087	(50,799)	527,288
	<hr/>	<hr/>	<hr/>

17. Post balance sheet events

These are disclosed in the Directors' Report

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

18. Share capital	31 December 2003	31 December 2002
	£	£
Authorised		
Ordinary (10,049,385 shares of £1)	10,049,385	10,049,385
	<hr/>	<hr/>
Issued and fully paid		
Ordinary (10,049,385 shares of £1)	10,049,385	10,049,385
	<hr/>	<hr/>

The issued and fully paid share capital was converted to Dollars at the rate of 1.6173, this was the rate in force on 23 December, 1999, the date of capitalisation of the company by HCC Insurance Holdings Inc. Issued share capital has been translated as below.

	Issued and Fully paid	
	31 December 2003	31 December 2002
	US\$	US\$
Ordinary shares at £1 each	16,252,870	16,252,870
	<hr/>	<hr/>
	16,252,870	16,252,870
	<hr/>	<hr/>

19. Related party transactions

All related party trading transactions were with group members that were at least 90% owned by other group members and therefore do not require disclosure.

HCC Insurance Holdings Inc., incorporated in the USA and listed on the New York Stock Exchange, is regarded by the directors of the company as the company's both immediate and ultimate parent undertaking. The consolidated accounts of HCC Insurance Holdings Inc. may be obtained from the company's principal office at 13403, Northwest Freeway, Houston, Texas 77040-6094, USA.

20. Lease obligations	Land and buildings	Other
	US\$	US\$
Rentals payable in the next twelve months are analysed as follows:		
Operating leases which expire in:		
1 year	-	31,048
2 to 5 years	539,009	138,582
Over 5 years	539,810	-

21. Pension costs

The group operates individual defined contribution pension plans for each employee through Friends Provident Life Assurance Company; additionally provision is made for payments to Funded Unapproved Retirement Benefit Schemes through James Hay Pension Trustees Ltd. where appropriate. There are no unfunded pension liabilities.

In respect of these schemes the pension cost charge represents contributions payable by the group to the plans and amounted to \$1,380,903 (31 December 2002 \$932,050). There are no amounts due to or from scheme members at the year end (31 December 2002 \$Nil).

22. Commitments

Capital expenditure

At 31 December 2003 the group had commitments for contracted capital expenditure amounting to US\$ Nil, company US\$ Nil (2002 group US\$ Nil, company US\$ Nil)

HCC ACQUISITIONS (U.K.) LIMITED.
NOTES TO THE FINANCIAL STATEMENTS

23. Subsidiary undertakings

The following are the subsidiaries owned by this company, all of them are dealt with in the consolidated accounts.

Name	Principle Activity	Class of Shares	Effective % held
Pepys Holdings Limited	Holding Company	Ordinary	100%
HCC Specialty Holdings (No.1) Limited	Holding Company	Ordinary	100%
HCC Specialty Holdings (No.2) Limited*	Holding Company	Ordinary	100%
Rattner Mackenzie Limited*	Insurance Broking	Ordinary	100%
Rattner Mackenzie Limited (RML) (Jordan Exempt Company)*	Insurance Broking	Ordinary	100%
Manchester Dickson Holdings Limited*	Holding Company	Ordinary	100%
Dickson Manchester & Company Limited*	Insurance Broking	Ordinary	100%
HCC Diversified Financial Products Limited*	Insurance Agency	Ordinary	100%
Profind Limited*	Insurance Broking	Ordinary	100%
Pepys Management Services Limited*	Management Services	Ordinary	100%
HCC Trustees Limited*	Trustee Services	Ordinary	100%

* Indirect holding via a subsidiary

24. Reconciliation of movement in shareholders' funds

	Share capital US\$	Unrealised gains/(losses) US\$	Profit and loss account US\$	Total US\$
Group				
At 31 December 2001	16,252,870	789	2,492,821	18,746,840
Profit for year ending 31 December 2002		(1,805)	1,002,816	1,001,011
At 31 December 2002	16,252,870	(1,016)	3,495,637	19,747,491
Profit for year ending 31 December 2003		1,016	2,084,922	85,938
Dividends paid			(2,000,000)	(2,000,000)
Exchange adjustment arising on consolidation			652,690	652,690
At 31 December 2003	16,252,870	-	4,233,249	20,486,119
Company				
At 31 December 2001	16,252,870	-	7,539,197	23,792,067
Profit for year ending 31 December 2002		-	65,871	65,871
At 31 December 2002	16,252,870	-	7,605,068	23,857,938
Profit for year ending 31 December 2003		-	3,799,618	3,799,618
At 31 December 2003	16,252,870	-	11,404,686	27,657,556