

HIGHWAY CORPORATE CAPITAL LIMITED

FINANCIAL STATEMENTS

31ST DECEMBER 2007

COMPANY REGISTRATION NUMBER 4282996

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DIRECTORS' REPORT - BUSINESS REVIEW

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

PRINCIPAL ACTIVITY

The Company acts as a Corporate Name at Lloyd's and had an overall premium limit of £52.1 million for the 2002 year of account. The Company provided funds for Motor Syndicate 2037 which wrote parallel to Syndicate 37. Syndicates 2037 and 37 were managed by a fellow Highway group subsidiary undertaking.

The Company is not underwriting on the 2007 year of account (2006: £nil).

On 31 July 2007, Court approval was obtained for the transfer of the business of Lloyd's Syndicate 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.

REVIEW OF BUSINESS

The profit for the financial period amounted to £332,000 (2006: profit £538,000).

DIVIDENDS

An equity dividend of £5,500,000 was paid during the period (2006: £nil).

DIRECTORS

The following have been directors during the period from 1st January 2007 to the date of this report, unless otherwise stated:

C D Hill
A Milton

Director of the ultimate holding company: Highway Insurance Holdings Plc

DIRECTORS' INTERESTS

The interests of the directors at 31st December 2007 in the share capital of the ultimate holding company are shown in the accounts of that company.

PROVISION OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Philip Lampshire
Secretary

Highway House
171 Kings Road
Brentwood
Essex CM14 4EJ
1 April 2008

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 these 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 UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 to prevent and detect fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HIGHWAY CORPORATE CAPITAL LIMITED

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

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' Responsibilities for preparing the financial statements in accordance with applicable law and UK accounting standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements 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.

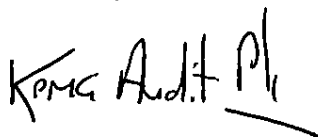
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 UK Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2007 and of its profit 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.



KPMG Audit Plc
Chartered Accountants & Registered Auditor
8 Salisbury Square
London
EC4Y 8BB
1 April 2008

Technical Account	Notes	2007 £ 000's	2006 £ 000's
Gross premiums written		(1)	
Outward reinsurance premiums		-	(101)
Net premiums written		(1)	(101)
Change in the gross provision for unearned premiums		-	
Change in the provision for unearned premiums reinsurers' share		-	
Change in net unearned premiums		-	
Net earned premiums		(1)	(101)
Allocated investment return transferred from the non-technical account		136	253
Other technical income		298	(58)
Total technical income		433	94
Gross claims paid		(584)	(3 695)
Reinsurers' share		(35)	972
Net paid claims		(619)	(2 723)
Change in claims provision		854	5 506
Reinsurers' share		(130)	(1 874)
Change in the provision for claims		724	3 632
Net claims incurred		105	909
Net operating expenses	4	(58)	(213)
Total technical charges		47	596
Balance on the technical account - general business		480	790

Non-Technical Account	Notes	2007 £ 000's	2006 £ 000's
Balance on the general business technical account		480	790
Investment return	5	244	378
Investment expenses and charges	5	(88)	(145)
Allocated investment return transferred to the general business technical account	5	(136)	(253)
Operating profit		500	770
Operating profit based on longer term investment return		480	790
Short term fluctuation in investment returns	5	20	(20)
Profit on ordinary activities before taxation		500	770
Taxation on profit on ordinary activities	6	(168)	(232)
Profit for the financial year		332	538

There are no recognised gains or losses or movements in shareholders' funds other than profit for the financial year
Accordingly no statement of recognised gains and losses is given

HIGHWAY CORPORATE CAPITAL LIMITED

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Balance Sheet at 31st December 2007

	Notes	2007 £ 000's	2006 £ 000's
Assets			
Financial assets	7	-	5 115
Reinsurers' share of technical provisions			
Claims outstanding		-	482
Debtors			
Debtors arising out of reinsurance operations		-	635
Other debtors - amounts falling due within one year	8	910	4,534
		<u>910</u>	<u>5 169</u>
Other assets			
Cash at bank and in hand		-	762
Prepayments and accrued income			
Other prepayments and accrued income		-	31
		<u>910</u>	<u>11 559</u>
Total assets		910	11 559

Balance Sheet at 31st December 2007 continued

	Notes	2007 £ 000's	2006 £ 000's
Liabilities			
Capital and reserves			
Called up share capital	11	1	1
Profit and loss account	12	157	5 325
Equity shareholders funds	12	<u>158</u>	<u>5 326</u>
Technical provisions			
Claims outstanding		-	3 309
Provisions for other risks and charges	10	68	598
Creditors			
Creditors arising out of direct insurance operations			37
Creditors arising out of reinsurance operations		-	-
Other creditors amounts falling due within one year	9	684	2 284
		<u>684</u>	<u>2 321</u>
Accruals and deferred income		-	5
Total equity and liabilities		<u>910</u>	<u>11 559</u>

These financial statements were approved by the board and signed on the 1 April 2008 by



A Milton
Director

Notes to the financial statements**1 Accounting policies****Accounting convention**

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules

The audited financial statements have been prepared in accordance with the special provisions relating to insurance companies in Section 255A of, and Schedule 9A to, the Companies Act 1985. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2007 have been adopted

Cash flow statement

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

Premiums

Gross written premiums represent premiums (exclusive of IPT) on business incepting during the year, irrespective of whether they relate in whole or in part to a later year, together with adjustments to premiums written in previous years

The provision for unearned premiums represents that part of gross premiums written which is estimated to be earned after the balance sheet date

Outward reinsurance premiums are accounted for in the same accounting year as the gross premiums to which they relate

Claims

Claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years

Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling expenses

Technical provisions - claims outstanding

The ultimate cost of outstanding claims including IBNR is estimated by using a range of standard actuarial claims projection techniques such as the Chain Ladder and Bornhuetter Ferguson methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each underwriting year, based upon the observed development of earlier years and expected loss ratios

IBNR provisions and provisions for outstanding claims are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of current information available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and are disclosed separately if material. The methods used, and the estimates made, are reviewed regularly

Unexpired risk provision

A provision for unexpired risks is made when it is anticipated that unearned premiums will be insufficient to meet future claims and claims settlement expenses of business in force at the end of the period after deduction of any acquisition costs deferred. The provision for unexpired risks is calculated after taking into account the relevant investment return on assets held to back insurance liabilities

Operating expenses

The company's operations include the control and payment of expenses. The residual costs are charges to the profit and loss account as incurred

Notes to the financial statements (continued)**1 Accounting policies (continued)****Acquisition costs**

Acquisition costs comprise of commission and other costs related to the acquisition of new insurance contracts and the renewal of existing contracts. They are deferred over the period in which the related premium is earned and to the extent that they are recoverable against future margins.

Investment return

Investment income comprises dividends, interest realised and unrealised gains and losses on assets held at fair value through profit and loss. Fair value realised gains and losses are calculated as the difference between the net sales proceeds and fair value at acquisition. Fair value unrealised gains and losses are calculated as the difference between the current fair value at balance sheet date and fair value at acquisition, adjusted for previously recognised unrealised gains and losses of those financial assets disposed of in the accounting period. Dividend income is recognised when the right to receive payment is established.

The longer term return on investments which support the underwriting activities initially allocated to the non technical account is transferred from that account to the technical account. The actual net investment return from other activities is included within the non technical account as part of operating profit. The difference between the longer term return allocated to the technical account and the actual return achieved on the underlying assets is recorded in the non technical account as 'Short term fluctuations in investment return'.

Intangible assets

Intangible assets which represent the cost of purchased syndicate capacity, are stated at historical values less any amortisation charges. Purchased syndicate capacity is amortised over its expected economic life commencing from the underwriting year to which the purchased capacity relates.

Investments

Financial assets are designated as at fair value through profit or loss on initial recognition. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented Group investment strategy. Information about these financial assets is provided internally on a fair value basis to the Group entity's key management personnel including the Board and Investment Committee. Financial assets carried at fair value through profit or loss are initially recognised at fair value with any associated transaction costs being expensed through the income statement.

The fair value of quoted investments is their quoted bid price at the balance sheet date. If the market for a financial asset is not active, the Company establishes fair values by using valuation techniques. These include the use of recent arm's length market transactions, references to another transaction that is substantially the same, discounted cash flow analysis and option pricing models. If the value of equity instruments cannot be reliably measured they are measured at cost.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

The purchase and sales of financial assets are accounted for on a settlement date basis.

Foreign currency

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates prevailing at that date. Foreign exchange differences arising on translation are recognised in the profit and loss. Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the rates prevailing when the fair value was determined.

Taxation

Current tax, including UK corporation tax, is provided on taxable profits at the rate applicable at the balance sheet date.

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.

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.

Notes to the financial statements (continued)

2 Segmental analysis

All insurance business written during the period is direct motor insurance written in the United Kingdom. The directors therefore consider that the Company only operates in one segment and consequently no segmental analysis is presented.

3 Directors and employees

(a) The Company has no employees other than directors (2006 - None)

(b) Directors' emoluments

The emoluments of the 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 net operating expenses.

4 Net operating expenses - technical account

	2007 £ 000's	2006 £ 000's
Administrative expenses	58	213
	<u>58</u>	<u>213</u>

Auditors remuneration was borne by the ultimate holding company

5 Net investment return

	2007 £ 000's	2006 £ 000's
Investment income	140	137
Realised gains on investments	95	363
Unrealised gains/(losses) on investments	9	(122)
Investment return	<u>244</u>	<u>378</u>
Investment expenses and charges	(88)	(145)
Net investment return	<u>156</u>	<u>233</u>
	2007 £ 000's	2006 £ 000's
Underwriting investment income on a long term rate of return basis transferred to technical account	136	253
Short term fluctuation in investment returns	20	(20)
	<u>156</u>	<u>233</u>

The transfer to the technical account represents the estimated long term rate of return of 5.5% (2006: 5.5%) applied to the investment assets and solvency capital held by the Company's insurance business.

Comparison of the longer term investment return credited to the general business technical account with the actual return included in the non-technical account

	2003 - 2007	2002 - 2006
Longer term investment return credited to the general business technical account	2,454	2,623
Actual return included in the non-technical account	<u>2,261</u>	<u>2,362</u>
Excess of the longer term investment return over the actual return	<u>193</u>	<u>261</u>

A 1% increase in the long term rate of return would result in an increase to the allocated investment return from the non-technical account of £25,000 (2006: £47,000).

6 Taxation on profit on ordinary activities

a) UK corporation tax	2007 £ 000's	2006 £ 000's
UK Corporation tax at 30% (2006: 30%)		
Current tax on profits for the year	(684)	(424)
Adjustments in respect of prior years	<u>(14)</u>	
Total current tax charge	<u>(698)</u>	<u>(424)</u>
Deferred tax		
Current year	527	192
Adjustment in respect of prior years	<u>3</u>	<u>-</u>
Total deferred tax credit	<u>530</u>	<u>192</u>
Tax on profits on ordinary activities	<u>(168)</u>	<u>(232)</u>
b) Factors affecting tax charge for the current period	2007 £ 000's	2006 £ 000's
Profit on ordinary activities before tax	500	770
Current tax @ 30% (2006: 30%)	(150)	(232)
Effects of		
Adjustments relating to disallowable expenses	(12)	
Adjustments relating to timing differences on taxable profits	<u>(522)</u>	<u>(192)</u>
Adjustments in respect of prior years	<u>(14)</u>	<u>-</u>
Total current tax charge	<u>(698)</u>	<u>(424)</u>

Notes to the financial statements (continued)

7 Investments

	2007 £ 000's	2006 £ 000's
Equities	-	633
Debt securities - fixed rate	-	4 125
Debt securities - floating rate	-	108
Collective investment schemes	-	233
Derivative financial instruments	-	16
	<u>-</u>	<u>5,115</u>

	Quoted £ 000 s	Unquoted £ 000 s	Total £ 000's
At 31 December 2006			
Equities	633	-	633
Debt securities - fixed rate	4 125	-	4 125
Debt securities - floating rate	108	-	108
Collective investment schemes	118	115	233
Derivative financial instruments	-	16	16
	<u>4 984</u>	<u>131</u>	<u>5 115</u>

The amount of financial assets that are expected to be recovered more than twelve months after the balance sheet date is £nil (2006 £233k)

8 Debtors - amounts falling due within one year

	2007 £ 000's	2006 £ 000's
Amounts due from fellow group undertakings	910	15
Amounts due from syndicate	-	3 570
Amounts due from co-insurer	-	914
Other debtors	-	35
	<u>910</u>	<u>4 534</u>

Notes to the financial statements (continued)

9 Creditors - amounts falling due within one year

	2007 £ 000's	2006 £ 000's
Amounts due to fellow group undertakings	-	1 445
Corporation tax	684	423
Derivative financial instruments	-	416
	<u>684</u>	<u>2 284</u>

10 Provisions for other risks and charges

	2007 £ 000's	2006 £ 000's
Deferred taxation	<u>68</u>	<u>598</u>

There were no unprovided deferred taxation liabilities

Deferred tax is in respect of short term timing differences for taxable profits

11 Called-up share capital

	2007 000's	2006 000's
Number of shares		
Ordinary shares	<u>1</u>	<u>1</u>
	2007 £ 000's	2006 £ 000's
Authorised allotted, issued and fully paid		
Ordinary shares of £1 each	<u>1</u>	<u>1</u>

12 Reconciliation of movements in shareholder's funds

	Share capital £ 000's	Profit and loss account £ 000's	Total £ 000's
At 1st January 2007	1	5 325	5 326
Profit for the financial year		332	332
Dividends		(5 500)	(5 500)
At 31st December 2007	<u>1</u>	<u>157</u>	<u>158</u>

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 Ultimate holding

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 Highway Insurance Holdings Plc, a company registered in England and Wales
Copies of the consolidated financial statements of Highway Insurance Holdings Plc can be obtained from the Company Secretary, Highway House
171 Kings Road Brentwood Essex CM14 4EJ