

COTESWORTH & CO. LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For The Year Ended 30 June 2000



Company Number 572840

COTESWORTH & CO. LIMITED
DIRECTORS' REPORT

The directors have pleasure in submitting their report and audited financial statements of the company for the year ended 30 June 2000.

The company changed its accounting period to ensure a coterminous year end with the ultimate parent company of the Cotesworth group of companies, HIH Insurance Limited. The comparative figures in this report are for the 18 months ended 30 June 1999.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company continued to be that of a Lloyd's underwriting agent managing syndicates at Lloyd's. The combined capacity of the active syndicates in 2000 was £217.67m (1999 - £202.35m; 1998 - £140.08m; 1997 - £158.84m).

Upon the completion of Lloyd's programme of reconstruction and renewal the company entered into agreement with Equitas Limited to administer the run-off of the 1992 & prior years of account of nine syndicates. As at 30 September 1999, Equitas had migrated all of the administration relating to the run-off of these syndicates.

FUTURE DEVELOPMENTS

The company proposes to continue its current activities.

RESULTS AND DIVIDENDS

The profit for the period, after taxation, amounted to £860,922 (1999: £4,051,707). Dividends of £2.003 per 'B' non-voting £1 share (1999: £3.387) amounting to £801,272 (1999: £1,354,998) have been paid. The directors do not propose a further dividend for the year on the 'B' non-voting £1 shares (1999: £5.625 per share amounting to £2,250,000). This leaves a retained profit of £59,650 (1999: £446,709).

TANGIBLE FIXED ASSETS

A summary of the changes in the tangible fixed assets is given in note 11 on page 11.

DIRECTORS AND THEIR INTERESTS

The following served as directors of Cotesworth & Co. Limited from 1 July 1999 to the date of this report unless shown otherwise. None of the directors or their families had any interest in the shares of the company.

The interests of the directors and their families, in the parent undertaking, HIH European Holding Company Limited were as follows:

	<u>HIH European Holding Company Limited</u>				<u>HIH European Holding Company Limited</u>			
	<u>1 July 1999</u>				<u>30 June 2000</u>			
	C1 Shares	C2 Shares	A Series Loan Notes £	B Series Loan Notes £	C1 Shares	C2 Shares	A Series Loan Notes £	B Series Loan Notes £
P. J. Aitchison (resigned 31.10.99)	10,395	10,395	600,000	126,890	-	-	-	-
A. J. Bonner	-	-	-	-	-	-	-	-
N. W. Britten	44,833	44,833	-	547,268	44,833	44,833	-	-
G. Davies	44,833	44,833	-	547,268	44,833	44,833	-	-
B. G. Devereese	44,833	44,833	-	547,268	44,833	44,833	-	-
E. J. Fenton	-	-	-	-	-	-	-	-
D Fodera (appointed 29.3.00)	-	-	-	-	-	-	-	-
J. S. Hale	-	-	-	-	-	-	-	-
G. McCall	-	-	-	-	-	-	-	-
M. W. Payne	-	-	-	-	-	-	-	-
D. R. Pitman (resigned 31.12.99)	2,937	2,937	-	35,851	-	-	-	-
H. R. Rivington	-	-	-	-	-	-	-	-
W. Scott	-	-	-	-	-	-	-	-
H. J. Simons	-	-	-	-	-	-	-	-
P. B. Thompson(resigned 29.3.00)	-	-	-	-	-	-	-	-
R.R. Williams (appointed 29.3.00)	-	-	-	-	-	-	-	-

CASH FLOW STATEMENT

Under the provisions of FRS1 (revised), a cashflow statement has not been prepared as Cotesworth & Co. Limited is a wholly owned subsidiary whose ultimate parent, HIH Insurance Limited, prepares consolidated financial statements in which the company is included.

YEAR 2000

A company-wide programme, designed to address the impact of the Year 2000 on our business, was undertaken in 1998 and 1999. The costs of this exercise were contained within the ongoing budgets for the Syndicates and the Agency and no significant additional costs were incurred. The Agency has also participated in the Lloyd's Certification Scheme run by the Year 2000 Programme Office established by Lloyd's. No problems relating to Electronic Date Recognition were encountered either at the year end or on 29 February 2000. Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems remain, however the Board believes that the risk of any problems remaining is minimal.

PARENT UNDERTAKING

The immediate parent undertaking is Cotesworth Holdings Limited. On the 13 October 1998 HIH European Holding Company Limited, a subsidiary of, HIH Insurance Limited, the Australian based international insurance group, acquired the entire share capital of Cotesworth Group Limited and its subsidiary holdings.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be re-appointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the board of directors on 20 November 2000.



W. Scott
Secretary

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;

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 accounts 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.

AUDITORS' REPORT

To the Shareholders of Cotesworth & Co. Limited

We have audited the financial statements on pages 5 to 14, which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of 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.

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 affairs of the company as at 30 June 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Binder Hamlyn
Chartered Accountants and Registered Auditors
20 Old Bailey
London
EC4M 7BH

20 November 2000

COTESWORTH & CO. LIMITED**PROFIT AND LOSS ACCOUNT**
For the year ended 30 June 2000

	Notes	Year to 30.6.00 £	18 Months to 30.6.99 £
TURNOVER			
Continuing activities	2	3,477,856	11,140,834
ADMINISTRATION EXPENSES		(2,311,566)	(5,599,953)
OTHER OPERATING INCOME	3	-	117,742
OPERATING PROFIT			
Continuing activities		<u>1,166,290</u>	<u>5,658,623</u>
Investment income	4	25,971	234,694
Interest payable	5	(622)	(4,019)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	<u>1,191,639</u>	<u>5,889,298</u>
Tax on profit on ordinary activities	9	<u>(330,717)</u>	<u>(1,837,591)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		860,922	4,051,707
Dividends	10	<u>(801,272)</u>	<u>(3,604,998)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u><u>59,650</u></u>	<u><u>446,709</u></u>

There are no recognised gains and losses other than as shown above.

The notes on pages 7 to 14 form an integral part of these financial statements.

COTESWORTH & CO. LIMITED**BALANCE SHEET****30 June 2000**

	Notes	30.6.00 £	30.6.99 £
FIXED ASSETS			
Tangible fixed assets	11	<u>13,680</u>	<u>21,498</u>
CURRENT ASSETS			
Debtors	12	3,568,018	5,723,287
Cash at bank		<u>42,707</u>	<u>979,765</u>
		3,610,725	6,703,052
CREDITORS			
Amounts falling due within one year	13	<u>(1,642,860)</u>	<u>(4,798,337)</u>
NET CURRENT ASSETS		<u>1,967,865</u>	<u>1,904,715</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,981,545	1,926,213
CREDITORS			
Amounts falling due after more than one year	14	<u>(17,598)</u>	<u>(21,916)</u>
		<u>1,963,947</u>	<u>1,904,297</u>
CAPITAL AND RESERVES			
Called up share capital	16	400,300	400,300
Profit and loss account	17	<u>1,563,647</u>	<u>1,503,997</u>
SHAREHOLDERS FUNDS		<u>1,963,947</u>	<u>1,904,297</u>

The notes on pages 7 to 14 form an integral part of these financial statements.

The financial statements on pages 5 to 14 were approved by the Board of Directors on 20 November 2000 and signed on its behalf by



W. Scott
Director

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Accounting convention

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

Turnover comprises underwriting agency fees and underwriting profit commission for which the following bases are adopted :-

Underwriting agency fees

These represent fees from capital providers at Lloyd's in respect of the underwriting year in which they are earned.

Underwriting profit commission

This is credited when received and usually relates to the underwriting account closed at the previous 31st December.

(b) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Motor vehicles	4 years
Computer equipment	4 years
Office equipment	5 years

(c) Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

(d) Leasing contracts

Lloyd's syndicates are unable to lease assets and therefore the company has entered into various lease contracts on behalf of its managed syndicates.

Such assets held under finance leases and similar contracts, and the related lease obligations, are recorded in the balance sheet at the inception of the leases and are depreciated over the assets' useful lives.

The amounts by which lease payments exceed the recorded lease obligation are treated as finance charges. These are charged to the profit and loss account over the period of the lease and represents a constant charge on the remaining balance of the liability for each period. The accounting treatment is in accordance with SSAP 21.

In order to ensure that neither the company nor its managed syndicates benefit from the cash flow of these arrangements, any rental instalment is recovered from the syndicate immediately it is paid by the company. The charge to depreciation is not reflected in the profit and loss account as it is deemed recovered from the managed syndicates (see note 11).

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ACCOUNTING POLICIES (continued)

(e) Pensions

The pension costs charged to the profit and loss account in respect of the defined contribution scheme represent amounts payable by the company during the accounting period in accordance with the rules of the scheme.

2. TURNOVER

	Year to 30.6.00 £	18 Months to 30.6.99 £
Continuing activities :		
Managing Agents fees	1,364,169	1,358,558
Profit commission – 1995 Year of account	-	6,380,405
Profit commission – 1997 (1996) Year of account	2,113,687	3,401,871
	<u>3,477,856</u>	<u>11,140,834</u>

3. OTHER OPERATING INCOME

	Year to 30.6.00 £	18 Months to 30.6.99 £
Management fee	<u>-</u>	<u>117,742</u>

4. INVESTMENT INCOME

	Year to 30.6.00 £	18 Months to 30.6.99 £
Bank interest receivable	25,971	234,694
Other interest	<u>-</u>	<u>-</u>
	<u>25,971</u>	<u>234,694</u>

5. INTEREST PAYABLE

	Year to 30.6.00 £	18 Months to 30.6.99 £
Finance lease	2,738	11,145
Hire purchase contracts	-	5,170
Other interest	<u>622</u>	<u>752</u>
	3,360	17,067
Less recovered from managed syndicates	<u>(2,738)</u>	<u>(13,048)</u>
Costs borne by the company	<u>622</u>	<u>4,019</u>

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year to 30.6.00 £	18 Months to 30.6.99 £
This is stated after charging:		
Auditors' remuneration in respect of:		
audit services	15,428	14,129
non audit services	6,383	14,543
Depreciation of owned tangible fixed assets (net of amounts recharged to managed syndicates).	-	1,364
Depreciation of tangible fixed assets held under finance leases and hire purchase contracts (net of amounts recharged to managed syndicates).	-	26,304
	<u> </u>	<u> </u>

7. STAFF COSTS

The average number of persons, including directors, employed by the company during the year was 92 (1999: 78).

The employment costs to the company of those persons were as follows:

	Year to 30.6.00 £	18 Months to 30.6.99 £
Salaries	5,166,606	6,496,206
Bonuses	804,495	3,481,722
Social security costs	669,301	963,605
Other pension costs	780,242	1,283,144
Other staff costs	224,724	140,368
Total group staff cost before recoveries from syndicates	<u>7,645,368</u>	<u>12,365,045</u>
Recovered from managed syndicates	<u>(5,743,321)</u>	<u>(7,151,403)</u>
Costs borne by the company	<u>1,902,047</u>	<u>5,213,642</u>

8. DIRECTORS' REMUNERATION*Remuneration*

The remuneration of the directors was as follows:

	Year to 30.6.00 £	18 Months to 30.6.99 £
Emoluments	1,619,640	4,412,326
Company contributions to money purchase pension schemes	244,352	495,569
	<u>1,863,992</u>	<u>4,907,895</u>
Recovered from Managed Syndicates and other group companies	<u>(973,028)</u>	<u>(2,371,969)</u>
Cost borne by the Company	<u>890,964</u>	<u>2,535,926</u>

Pensions

The number of directors who were members of money purchase pension schemes was 9 (1999: 9).

Highest-paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	Year to 30.6.00 £	18 Months to 30.6.99 £
Emoluments and long term incentive schemes	455,490	1,448,811
Company contributions to money purchase schemes	50,000	75,000
	<u>505,490</u>	<u>1,523,811</u>
Recovered from Managed Syndicates and other group companies	<u>(286,000)</u>	<u>(424,020)</u>
Cost borne by the Company	<u>219,490</u>	<u>1,099,791</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year to 30.6.00 £	18 Months to 30.6.99 £
Based on the adjusted profit for the year:		
U. K. Corporation tax at 30% (31%)	367,384	1,850,000
Adjustment in respect of prior year	<u>(36,667)</u>	<u>(12,409)</u>
	<u>330,717</u>	<u>1,837,591</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. DIVIDENDS

	Year to 30.6.00 £	18 Months to 30.6.99 £
'B' non-voting shares of £1 each		
Proposed dividend nil, per share (1999: £5.625)	-	2,250,000
Paid dividend of £2.003 per share (1999: £3.387)	801,272	1,354,998
Total dividends	801,272	3,604,998

11. TANGIBLE FIXED ASSETS

	Motor Vehicles £	Computer and Office Equipment £	Total £
Cost			
1 July 1999	125,881	1,844,366	1,970,247
Disposals	(94,609)	-	(94,609)
30 June 2000	31,272	1,844,366	1,875,638
Accumulated depreciation			
1 July 1999	104,383	1,844,366	1,948,749
Charge for the year	7,818	-	7,818
Disposals	(94,609)	-	(94,609)
30 June 2000	17,592	1,844,366	1,861,958
Net Book Value			
30 June 2000	13,680	-	13,680
1 July 1999	21,498	-	21,498

The net book value at the period end of assets held under finance leases and similar contracts was £13,680 (1999: £21,498). The cost of these assets were £31,272 and the accumulated depreciation at the end of the period was £17,592. As detailed in the accounting policies the company recharges depreciation to its managed syndicates. For 12 months ended 30 June 2000 the amount recharged was £7,818 (1999: £23,406).

12. DEBTORS

	30.6.00 £	30.6.99 £
Amount owed by group undertakings	3,073,720	5,063,857
Other debtors	461,270	657,990
Prepayments and accrued income	33,028	1,440
	3,568,018	5,723,287

Amount owed by group undertakings is payable on demand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. CREDITORS: Amounts falling due within one year

	30.6.00	30.6.99
	£	£
Trade creditors	173,805	202,060
UK Corporation tax	126,113	1,850,000
Other taxes and social security costs	226,942	34,704
Proposed dividend	-	2,250,000
Accruals and deferred income	81,501	142,718
Amount owed to group undertakings	958,403	303,446
Obligations under finance leases and hire purchase contracts	4,682	15,409
Other creditors	71,414	-
	<u>1,642,860</u>	<u>4,798,337</u>

14. CREDITORS: Amounts falling due after more than one year

	30.6.00	30.6.99
	£	£
Obligations under finance leases and hire purchase contracts	<u>17,598</u>	<u>21,916</u>

15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	30.6.00	30.6.99
	£	£
(a) Obligations, net of finance charges, may be analysed as follows:		
Amounts payable within one year	4,682	15,409
Amounts payable within two to five years	<u>17,598</u>	<u>21,916</u>
	<u>22,280</u>	<u>37,325</u>
(b) Analysis of changes in obligations under finance leases and hire purchase contracts during the period		
At 1 July 1999	37,325	85,599
Inception of finance lease contracts	-	31,272
Capital element of finance lease rental payments	<u>(15,045)</u>	<u>(79,546)</u>
	<u>(15,045)</u>	<u>(48,274)</u>
At 30 June 2000	<u>22,280</u>	<u>37,325</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. SHARE CAPITAL

	30.6.00 £	30.6.99 £
Authorised:		
'A' voting shares of £1 each	500	500
'B' non-voting shares of £1 each	499,500	499,500
	<u>500,000</u>	<u>500,000</u>
Allotted, issued and fully paid:		
'A' voting shares of £1 each	300	300
'B' non-voting shares of £1 each	400,000	400,000
	<u>400,300</u>	<u>400,300</u>

Only 'B' non-voting shares have rights to dividends. On a division of assets in a winding-up, the amount available for distribution amongst the shareholders would be applied first in repayment of nominal value to the holders of the 'A' voting shares. The balance of the assets would be divided among the holders of the 'B' non voting shares. All shares are non-redeemable.

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Non-Equity Share Capital £	Equity Share Capital £	Profit and Loss Account £	Total £
At 1 July 1999	300	400,000	1,503,997	1,904,297
Profit for the year	-	-	860,922	860,922
Dividends	-	-	(801,272)	(801,272)
	<u>300</u>	<u>400,000</u>	<u>1,563,647</u>	<u>1,963,947</u>
At 30 June 2000	300	400,000	1,563,647	1,963,947

18. PENSIONS

The company contributes to two defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the funds and amounted to £780,242 (1999: £1,283,144).

19. OTHER FINANCIAL COMMITMENTS

At 30 June 2000 the company had annual commitments under non-cancellable operating leases, the majority of which will be recharged to managed syndicates as incurred, as follows:

	Buildings		Other	
	30.6.00	30.6.99	30.6.00	30.6.99
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	81,862	9,300
Within two to five years	-	-	79,923	92,046
	<u>-</u>	<u>-</u>	<u>161,785</u>	<u>101,346</u>

On 31 March 1999, Cotesworth & Co. Limited terminated its lease on the office building.

20. DIRECTORS' INTERESTS

The following directors had not resigned their membership of Lloyd's underwriting syndicates for which the company acts as managing agent, with effect from 2000 year of account, and in that capacity have interests in contracts between the company and third parties:-

A. J. Bonner
M. W. Payne

There is no other matter which, in the opinion of the directors, should be drawn to the attention of the shareholders.

21. PARENT UNDERTAKING

The immediate parent undertaking is Cotesworth Holdings Limited, incorporated in Great Britain and registered in England and Wales. Copies of the financial statements of Cotesworth Holdings Limited are available from Companies House, Crown Way, Maindy, Cardiff.

The ultimate parent undertaking is HIH Insurance Limited, the Australian based international insurance group. This is the largest group for which group accounts are prepared. HIH European Holding Company Limited is the smallest group which produces accounts incorporating Cotesworth & Co. Limited.