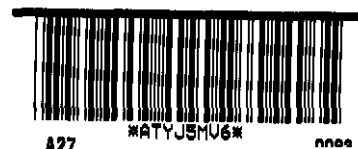


**COTESWORTH CAPITAL LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**For The 18 Month Period Ended 30th June 1999**

Registered Number: 3265777



## **COTESWORTH CAPITAL LIMITED**

### **DIRECTORS' REPORT**

**For the period ended 30 June 1999**

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The directors have pleasure in submitting their report and audited financial statements of the company for the 18 months ended 30th June 1999.

The results reported are for 18 months. 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 12 months ended 31st December 1997.

### **PRINCIPAL ACTIVITY AND STATUS**

Cotesworth Capital Limited was formed on 18 October 1996 to take advantage of the change in rules whereby investors could participate in underwriting at Lloyd's on a limited liability basis. The company changed its name from Moatfern Limited to Cotesworth Capital Limited on 31 October 1996.

The company was elected as a Corporate Member at Lloyd's on 23 December 1996.

On 4<sup>th</sup> December 1999 Cotesworth Holdings Ltd acquired the remaining 54.79% of Cotesworth Capital B Class shares from the existing share holders Walsam Brothers & Lureco Ltd. Cotesworth Capital Ltd is now 100% owned by Cotesworth Holdings Ltd and as a consequence is a 100% subsidiary of HIH Insurance Limited.

### **COMPANY'S BUSINESS**

The company was formed in October 1996 and commenced trading with the Lloyd's 1997 year of account. Its business is that of a corporate underwriting member of Lloyd's. The company places all of its underwriting capacity with Syndicates managed by a subsidiary of Cotesworth Holdings Limited.

The company's underwriting capacity for 1997 was £14,500,000; 1998 it was £49,000,000. For 1999 it is £160,207,000, this has been wholly supported by letters of credit. This has been allocated over 5 Syndicates as follows:

<b>Syndicate Number</b>	<b>1997 Year of Account £'000</b>	<b>1998 Year of Account £'000</b>	<b>1999 Year of Account £'000</b>
228	1,000	5,000	19,487
535	11,500	24,500	26,674
536	1,000	3,500	24,681
1069	1,000	16,000	24,365
1688	-	-	65,000
<b>Total</b>	<b>14,500</b>	<b>49,000</b>	<b>160,207</b>

### **PRESENTATION OF THE ACCOUNTS**

The accounts have been prepared in accordance with the provisions of Section 255 and Schedule 9A of the Companies Act 1985.

### **FUTURE DEVELOPMENTS**

The company proposes to continue its current activities. In order to help support the underwriting for the 1998 year of account the company purchased stop loss reinsurance protection in 1998.

## **COTESWORTH CAPITAL LIMITED**

### **DIRECTORS' REPORT**

**For the period ended 30 June 1999**

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#### **DIRECTORS**

The following served as directors from the date of formation of the company 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, Cotesworth Holdings Limited, and of the ultimate parent undertaking, HIH Insurance Limited are disclosed in the financial statements of HIH Insurance Limited at 30 June 1999.

The directors who served during the period were as follows:

P.J. Aitchison	(appointed 30.10.96 – resigned 13.10.98)
T.R. Berry	(appointed 30.10.96 – resigned 12.10.98)
N.W. Britten	(appointed 30.10.96)
T.W. Moore	(appointed 30.10.96 – resigned 04.12.98)
W.F. Copping	(appointed 13.01.98 – resigned 04.12.98)
D. Fodera	(appointed 11.01.99)
P.B. Thompson	(appointed 24.11.98)
H.G. Simons	(appointed 24.11.98)
G. Davies	(appointed 24.11.98)
B.G. Devereese	(appointed 24.11.98)

#### **RESULTS AND DIVIDENDS**

The loss for the period, after taxation, amounted to £8,340,000 (1997: profit £574,000). No dividend has been declared on the current results.

#### **CASH FLOW STATEMENT**

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

#### **YEAR 2000**

The directors have considered the impact of the millennium problem on the operations of the company. The costs of this exercise are contained within the ongoing budgets, and no significant additional costs are anticipated. Given the complexity of the issue, it is not possible to guarantee that there will not be any Year 2000 problems, however, the board believes that it will achieve an acceptable state of readiness.

#### **PARENT UNDERTAKING**

The immediate undertaking is Cotesworth Holdings Limited. On the 13<sup>th</sup> October 1998 HIH Insurance Limited, the Australian based international insurance group, acquired the entire share capital of Cotesworth Group Limited and its subsidiary holdings.

#### **AUDITORS**

Binder Hamlyn were appointed by the directors as the first auditors of the company. In accordance with Section 385 of the Companies Act 1985, a resolution proposing the reappointment of Binder Hamlyn as auditors to the company will be put to the annual general meeting.

By order of the Board,



N.W. Britten

Director

24<sup>th</sup> December 1999

## **COTESWORTH CAPITAL LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

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Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit and 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 confirm that the financial statements comply with the above requirements.

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 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 of fraud and other irregularities.

# BINDER HAMLYN

**COTESWORTH CAPITAL LIMITED**

**AUDITORS' REPORT**

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Andersen Worldwide

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20 Old Bailey  
London EC4M 7BH

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## **REPORT OF THE AUDITORS**

to the members of Cotesworth Capital Limited

We have audited the accounts on pages 5 to 18 which have been prepared under the historical cost convention as modified by the revaluation of certain investments and on the basis of the accounting policies set out on pages 10 to 13.

### **Respective responsibilities of directors and auditors**

As described on page 3, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

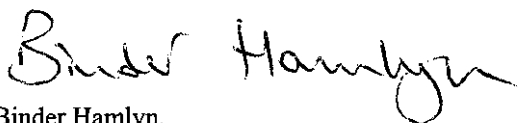
### **Basis of opinion**

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 assurances that the accounts 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 accounts.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company at 30 June 1999 and of its loss for the period 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.

24<sup>th</sup> December 1999

**COTESWORTH CAPITAL LIMITED**

**PROFIT AND LOSS ACCOUNT**

**For the 18 months ended 30 June 1999**

	Note	18 Months to 30.6.99 £'000	12 Months to 31.12.97 £'000
<b>TECHNICAL ACCOUNT - GENERAL BUSINESS</b>			
Premiums, net of reinsurance:			
Gross premiums written		127,147	16,371
Reinsurance to close from previous years		6,401	-
	3	<u>133,548</u>	<u>16,371</u>
Outward reinsurance premiums		(44,455)	(4,506)
Net premiums written		<u>89,093</u>	<u>11,865</u>
Allocated investment return transferred from the non-technical account		550	27
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Claims Paid:			
Gross amount		28,831	908
Reinsurers' share		<u>(12,058)</u>	<u>(598)</u>
		<u>16,773</u>	<u>310</u>
<b>CHANGE IN THE PROVISION FOR CLAIMS:</b>			
Gross amount		66,590	10,948
Reinsurers' share		<u>(17,709)</u>	<u>(3,721)</u>
		<u>48,881</u>	<u>7,227</u>
Net claims incurred		65,654	7,537
Net operating expenses	3 & 4	29,378	3,985
Personal Expenses		3,325	367
Investment expenses and charges	6	<u>-</u>	<u>3</u>
Loss transferred to the technical account		<u>(8,714)</u>	<u>-</u>

# **COTESWORTH CAPITAL LIMITED**

## **PROFIT AND LOSS ACCOUNT**

**For the 18 months ended 30 June 1999 (continued)**

	<b>Note</b>	<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
<b>TECHNICAL LOSS BROUGHT FORWARD</b>		(8,714)	-
<b>NON-TECHNICAL ACCOUNT</b>			
Investment income	5	2,180	883
Investment expenses and charges	6	(21)	(11)
Allocated investment return transferred to technical account		(550)	(27)
Other charges		<u>(1,024)</u>	<u>(4)</u>
Profit on ordinary activities before tax	7	(8,129)	841
Tax on profit on ordinary activities	8	(211)	(267)
		<u>(8,340)</u>	<u>574</u>
(Loss)/Profit for the financial period		<u>(8,340)</u>	<u>574</u>
(Loss)/Profit retained for the financial period		<u>(8,340)</u>	<u>574</u>

The company has no gains or losses other than the profit or loss for the period. All items derive from continuing operations. No operations were acquired or discontinued in the period.

## **NOTE OF HISTORICAL COST NON-TECHNICAL ACCOUNT PROFIT**

	<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
Reported profit on ordinary activities before tax	585	841
Unrealised gains on investments held at the period end	(138)	(3)
	<u>447</u>	<u>838</u>
Historical cost profit on ordinary activities before tax		
	<u>374</u>	<u>574</u>
Historical cost profit for the period retained after tax		

# COTESWORTH CAPITAL LIMITED

## BALANCE SHEET As at 30th June 1999

	Note	As at 30.6.99			As at 31.12.97		
		Syndicate £'000	Company £'000	Total £'000	Syndicate £'000	Company £'000	Total £'000
ASSETS							
FIXED ASSETS							
Intangible Fixed Assets		-	40	40			
INVESTMENTS							
Other Financial Investments	9	8,051	-	8,051	940	18,250	19,190
REINSURERS' SHARE OF TECHNICAL PROVISIONS							
Claims outstanding		21,429	-	21,429	3,721	-	3,721
DEBTORS							
Debtors arising out of direct insurance operations:							
Due from intermediaries		53,799	-	53,799	5,809	-	5,809
Debtors arising out of reinsurance operations		3,300	-	3,300	730	-	730
Other debtors		3,028	106	3,134	373	2	375
Reinsurance to close received from previous year		6,644	-	6,644	-	-	-
Amounts due from group companies		-	12,844	12,844	-	-	-
OTHER ASSETS							
Cash		5,220	6,735	11,955	176	391	567
Other		1,863	-	1,863	412	-	412
PREPAYMENTS AND ACCRUED INCOME							
Accrued interest		-	-	-	-	451	451
TOTAL ASSETS		103,334	19,725	123,059	12,161	19,094	31,255



# COTESWORTH CAPITAL LIMITED

## BALANCE SHEET

as at 30th June 1999 (continued)

		As at 30.6.99			As at 31.12.97		
	Note	Syndicate £'000	Company £'000	Total £'000	Syndicate £'000	Company £'000	Total £'000
<b>LIABILITIES</b>							
<b>CAPITAL AND RESERVES</b>							
Called up share capital	11	-	18,250	18,250	-	18,250	18,250
Profit and loss account	12	(8,714)	948	(7,766)	-	574	574
Shareholders' funds	13	(8,714)	19,198	10,484	-	18,824	18,824
<b>TECHNICAL PROVISIONS</b>							
Claims outstanding - gross amount		92,640	-	92,640	10,948	-	10,948
<b>CREDITORS</b>							
Creditors arising out of direct insurance operations		512	-	512	49	-	49
Creditors arising out of reinsurance operations		10,247	-	10,247	397	-	397
Other creditors including taxation and social security	14	8,649	527	9,176	767	270	1,037
<b>TOTAL LIABILITIES</b>		<b>103,334</b>	<b>19,725</b>	<b>123,059</b>	<b>12,161</b>	<b>19,094</b>	<b>31,255</b>

Approved by the board of directors on 24<sup>th</sup> December 1999 and signed on its behalf by:

N.W. Britten

N.W. Britten  
Director

## **COTESWORTH CAPITAL LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the period ended 30 June 1999**

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#### **1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

##### **(a) *Current basis***

The accounts have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 ("the Act") and in accordance with applicable Accounting Standards.

##### **(b) *Recognition of insurance transactions***

Preparing financial statements in accordance with Section 255 of and Schedule 9A to the Act has required the company to recognise its proportion of all the transactions undertaken by the Lloyd's Syndicates in which it participates ("the Syndicates").

For each such Syndicate, the company's proportion of the underwriting transactions, investment return and operating expenses has been reflected within the company's profit and loss account. Similarly, its proportion of the Syndicate's assets and liabilities has been reflected in its balance sheet (under the column heading "Syndicate"). The "Syndicate" assets are held subject to trust deeds for the benefit of the company's insurance creditors.

The proportion referred to above is calculated by reference to the company's participation as a percentage of the Syndicate's total capacity.

The company has delegated sole management and control of its underwriting through each Syndicate to the managing agent of the Syndicate ("the Managing Agent") and it has further undertaken not to interfere with the exercise of such management and control. The Managing Agent of the Syndicates are therefore responsible for determining the insurance transactions to be recognised by the company. The only exception to this rule is the level of provision for outstanding claims (see (2e) below).

##### **(c) *Sources of data***

The information used to compile the technical account and the Syndicate balance sheet is based on returns prepared for this purpose by the Managing Agent of the Syndicates ("the Returns"). These Returns have been subjected to audit by the Syndicate auditors and are based on the audited Syndicate returns to Lloyd's and the audited annual reports to Syndicate members. This base data has been adjusted as necessary so that the Returns reflect the differences in preparation between Syndicate annual reports and financial statements in accordance with Schedule 9A.

The format of the Returns has been established by Lloyd's.

##### **(d) *Accounting Period***

The company has changed from a 31 December year end to a 30 June year end. The accounts have been prepared over an 18 month period.

## COTESWORTH CAPITAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 1999 (continued)

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#### 2. ACCOUNTING POLICIES

##### (a) *Accounting convention*

The accounts are prepared under the historical cost convention as modified by the revaluation of financial investments.

##### (b) *Basis of accounting for underwriting results*

All classes of insurance business written are accounted for on a three-year funded basis because it is the basis most similar to that followed by the Syndicates. The nature of the information Managing Agents can make available is insufficient for the company to make reliable estimates of the necessary technical provisions on an annual basis of accounting. Under the three year funded basis followed by the company, the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ("the underwriting year") is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Consequently, no profit is recognised in respect of an underwriting year until that time at the earliest. Profit is only recognised if a Syndicate has been able to effect a "reinsurance to close" (see (f) below) in respect of that underwriting year.

If an underwriting period is expected to make a loss, the loss is recognised as soon as it is foreseen by increasing the technical provision to make it sufficient to meet present liabilities and anticipated future claims and expenses. The provisions are recognised on a syndicate by syndicate basis for each year of account. Estimation of losses prior to closure of a year of account is undertaken by Cotesworth Capital Limited's management based on the latest available information, including estimates provided by the Managing Agent. Such estimates are uncertain in nature and the effect of any over or under estimate will be included in future accounts.

##### (c) *Premiums*

Premiums written comprise the total premiums receivable for the whole period of cover provided by the contracts incepting during the financial period, together with any adjustments rising in the period to such premiums receivable in respect of business written in prior years. Premiums are shown gross of commission payable to intermediaries and exclude insurance premium tax.

Gross premiums written may include "reinsurance to close" receivable (see (f) below).

Premiums written by a Syndicate may also include the reinsurance of other Syndicates on which the company participates. No adjustments have been made to remove such transactions.

Outward reinsurance premiums may include "reinsurance to close" payable (see (f) below).

##### (d) *Claims incurred*

Claims incurred include the estimated costs of claims handling expenses. Recoverable amounts arising out of subrogation or salvage are deducted from the estimated cost of claims. Claims incurred comprise amounts paid or provided in respect of claims occurring during the period to 30 June, together with the amount by which settlement or reassessment of claims from previous year differs from the provision at the beginning of the period.

##### (e) *Provision for claims*

Provision is made for claims incurred but not paid for in respect of events up to 30 June 1999 (31 December 1997). The provision includes the amounts required to ensure no profit is recognised before the end of the third year under the three year funded basis of accounting (see 1(b) above).

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 1999 (continued)

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2. ACCOUNTING POLICIES (continued)

(f) *Reinsurance to close*

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's Syndicates. Under it, underwriting members (the reinsured members) who are members of a Syndicate for a year of account (the closed year), agree with underwriting members who comprise that of another Syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that Syndicate and allocated to the closed year in consideration of:

- (a) a premium; and
- (b) either
  - (i) the assignment, or agreement to assign, to the reinsuring member of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurance and other monies receivable in connection with that insurance business); or
  - (ii) an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefit so far as they are not applied in discharge of the liabilities of the reinsured members.

Where the reinsurance to close is between members on successive years of account of the same Syndicate, the managing agent has a duty to ensure both sets of members are treated equitably and to set the reinsurance to close with the intention that neither a profit nor a loss accrues to either group of members.

To the extent that the company participates on successive years of account of the same Syndicate and there is a reinsurance to close between those years, the company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

If the company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the company has assumed a greater proportion of the business of the Syndicate. If the company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the company's exposure to risks previously written by the Syndicate.

## COTESWORTH CAPITAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 1999 (continued)

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#### 2. ACCOUNTING POLICIES (continued)

##### (f) *Reinsurance to close (continued)*

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail; the reinsured members remain theoretically liable for the settlement of any outstanding claims.

However, payment of a reinsurance to close is conventionally accepted as terminating a reinsured member's participation on a Syndicate year of account and it is treated for accounts purposes as settling all the company's outstanding gross liabilities in respect of the business so reinsured.

##### (g) *Investments*

Listed and other traded investments are stated at mid-market values. Other investments are stated at directors' valuations. Unrealised gains and losses are recognised in the profit and loss account.

##### (h) *Investment income*

Investment income comprises interest receivable and dividends received plus realised gains on the disposal of investments. Realised gains and losses arise from the difference between proceeds and valuation at the previous period end, or cost if there has been no previous revaluation.

Where investments represent the company's share of Syndicate investments, they are treated as sold and repurchased at each period end in recognition of the annual venture nature of participation on a Syndicate. The cost of these investments is therefore their market value at 30 June 1999 (31 December 1997). The realised gains reported by Syndicates are net of any realised losses.

All investment income, net of realised losses, arising on Syndicate participations is allocated to the technical account. Other investment income is attributable to the non-technical account.

##### (i) *Investment expenses and charges*

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments. Realised losses arise from the difference between proceeds and valuation at the previous period end, or cost if there has been no previous revaluation. The realised losses reported by Syndicates are net of any realised gains.

##### (j) *Net operating and Personal Expenses*

Operating expenses are recognised when incurred. They include the company's share of Syndicate operating expenses, the remuneration payable to Managing Agents and the direct costs of membership of Lloyd's. Where they relate to the company's underwriting, they are taken into account in calculating the technical provision required under the three year funded basis of accounting.

##### (k) *Other charges*

Expenses not attributable to underwriting or investment management are recognised when incurred.

## **COTESWORTH CAPITAL LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the period ended 30 June 1999 (continued)**

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#### **2. ACCOUNTING POLICIES (continued)**

##### **(l) Foreign currencies**

Transactions in foreign currencies other than sterling, United States dollars and Canadian dollars are translated at the rates of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in United States dollars and Canadian dollars and assets and liabilities in currencies other than sterling are translated at the rates of exchange ruling at the end of the financial period. Exchange differences arising on translation are dealt with in the profit and loss account.

##### **(m) Taxation**

The company is taxed on its share of the underwriting results declared by Syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. The Syndicate results included in these financial statements relate to the 1997, 1998 and 1999 year of accounts and will be declared for tax purposes in the calendar year 2000, 2001 and 2002 respectively.

The Inland Revenue determines the taxable results of Syndicates on the basis of computations submitted by the Managing Agent. Any adjustments that may be necessary to the tax provisions established by the company as a result of Inland Revenue agreement of individual Syndicate taxable results will be reflected in the financial statements of subsequent periods.

Other profits are assessable to corporation tax in the same period as they are recognised for accounting purposes, after adjustment in accordance with tax legislation.

##### **(n) 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. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

##### **(o) Intangible assets – capacity purchased**

Costs of purchasing syndicates capacity are included at cost. The capacity purchased is amortised in line with profits received relating to the capacity purchased. Provision is made for any impairment.

**COTESWORTH CAPITAL LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

For the period ended 30 June 1999 (continued)

**3. SEGMENTAL INFORMATION**

<b>Period ended 31 December 1997</b>	<b>Gross premiums written £'000</b>	<b>Gross claims incurred £'000</b>	<b>Gross operating expenses £'000</b>	<b>Reinsurance balance £'000</b>	<b>Total £'000</b>
<i>Direct business</i>					
Accident & health	191	(203)	(55)	127	60
Motor - other classes	26	(136)	(7)	-	(117)
Marine, aviation and transport	8,667	(9,903)	(2,111)	(410)	(3,757)
Fire and other damage to property	2,548	(798)	(630)	656	1,776
Third party liability	3,655	(217)	(897)	(660)	1,881
Credit and Suretyship	362	(153)	(91)	79	197
Other	1	-	(1)	-	-
<b>Total direct</b>	<b>15,450</b>	<b>(11,410)</b>	<b>(3,792)</b>	<b>(208)</b>	<b>40</b>
<i>Reinsurance business</i>					
Other reinsurance acceptances	921	(446)	(193)	21	303
<b>Total</b>	<b>16,371</b>	<b>(11,856)</b>	<b>(3,985)</b>	<b>(187)</b>	<b>343</b>
<b>Period ended 30 June 1999</b>	<b>Gross premiums written £'000</b>	<b>Gross claims incurred £'000</b>	<b>Gross operating expenses £'000</b>	<b>Reinsurance balance £'000</b>	<b>Total £'000</b>
<i>Direct business</i>					
Accident & health	5,860	(2,950)	(1,385)	(1,963)	(438)
Motor – third party	776	(367)	(182)	(281)	(54)
Motor - other classes	589	(246)	(141)	(120)	82
Marine, aviation and transport	43,578	(28,480)	(10,480)	(4,371)	247
Fire and other damage to property	14,783	(12,762)	(3,149)	(466)	(1,594)
Third party liability	30,648	(23,911)	(5,758)	(618)	361
Credit and Suretyship	(155)	102	39	(167)	(181)
Legal Expenses	17	(14)	(4)	-	(1)
Other	2,446	(2,026)	(653)	(143)	(376)
<b>Total direct</b>	<b>98,542</b>	<b>(70,654)</b>	<b>(21,713)</b>	<b>(8,129)</b>	<b>(1,954)</b>
<i>Reinsurance business</i>					
Other reinsurance acceptances	28,605	(14,110)	(7,665)	(10,815)	(3,985)
Reinsurance to close from earlier years	6,401	(10,657)	-	4,256	-
<b>Total reinsurance</b>	<b>35,006</b>	<b>(24,767)</b>	<b>(7,665)</b>	<b>(6,559)</b>	<b>(3,985)</b>
<b>Total</b>	<b>133,548</b>	<b>(95,421)</b>	<b>(29,378)</b>	<b>(14,688)</b>	<b>(5,939)</b>

**COTESWORTH CAPITAL LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the period ended 30 June 1999 (continued)**

<b>3. SEGMENTAL INFORMATION (continued)</b>	<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
Gross premiums in respect of direct business written in :		
United Kingdom	98,542	15,450
<b>4. NET UNDERWRITING OPERATING EXPENSES</b>	<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
Acquisition costs	24,061	3,510
Administration expenses	6,264	475
Exchange adjustment	(947)	-
	<u>29,378</u>	<u>3,985</u>
<b>5. INVESTMENT INCOME</b>	<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
Derived from underwriting activities	550	27
Derived from non-underwriting activities	<u>1,630</u>	<u>856</u>
Income from other investments	<u>2,180</u>	<u>883</u>
<b>6. INVESTMENT EXPENSES AND CHARGES</b>	<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
Investment management expenses derived from underwriting activities	<u>-</u>	<u>3</u>
	<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
Investment management expenses derived from non-underwriting activities	<u>21</u>	<u>11</u>
<b>7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>	<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
The profit on ordinary activities before tax is stated after charging:		
Auditors' remuneration		
Audit	161	3
Non audit services	<u>5</u>	<u>-</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
For the period ended 30 June 1999 (continued)

<b>18 Months to 30.6.99 £'000</b>	<b>12 Months to 31.12.97 £'000</b>
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UK corporation tax at 31%	211	267
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**Current value**

Current value	As at 30.6.99			As at 31.12.97		
	Syndicate £'000	Company £'000	Total £'000	Syndicate £'000	Company £'000	Total £'000
Debt securities and other fixed income securities						
Listed	7,937	-	7,937	517	-	517
Other	-	-	-	344	-	344
	7,937	-	7,937	861	-	861
Deposits with credit institutions	114	-	114	79	-	79
Other - Deposits held at Lloyd's of London	-	-	-	-	18,250	18,250
	8,051	-	8,051	940	18,250	19,190

	As at 30.6.99			As at 31.12.97		
	Syndicate £'000	Company £'000	Total £'000	Syndicate £'000	Company £'000	Total £'000
Debt securities and other fixed income securities						
Listed	7,799	-	7,799	514	-	514
Other - Deposits held at Lloyd's of London	-	-	-	344	-	344
	7,799	-	7,799	858	-	858
Deposits with credit institutions	114	-	114	79	-	79
Other	-	-	-	-	18,250	18,250
	7,913	-	7,913	937	18,250	19,187

**COTESWORTH CAPITAL LIMITED****NOTES TO THE FINANCIAL STATEMENTS**

For the period ended 30 June 1999 (continued)

**10. INTANGIBLE FIXED ASSETS – PURCHASED CAPACITY**

	As at 30.6.99 £'000	As at 31.12.97 £'000
<b>Cost</b>		
Additions at 30 June 1999	40	-
Depreciation charge for the period to 30 June 1999	-	-
Net book value	<u>40</u>	<u>-</u>

**11. SHARE CAPITAL**

<b>Authorised, allotted, issued and fully paid</b>	<b>As at 30.6.99</b>	<b>As at 31.12.97</b>
Ordinary shares of £1 each	18,250,000	18,250,000

The allocated share capital of the company comprises 100 A voting ordinary shares of £1 each and 18,250,000 B non voting ordinary shares of £1 each.

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.

**12. RESERVES**

	<b>Profit and loss account £'000</b>
At 31 December 1997	574
Retained loss for the period	<u>(8,340)</u>
At 30 June 1999	<u>(7,766)</u>

## COTESWORTH CAPITAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 1999 (continued)

#### 13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30.6.99 £'000	31.12.97 £'000
Opening shareholders' funds at 1 January 1998	18,824	-
Profit/(loss) for the financial period	(8,340)	574
Issue of ordinary share capital	-	18,250
Closing shareholder's funds at 30 June 1999	10,484	18,824

#### 14. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	As at 30.6.99 £'000	As at 31.12.97 £'000
UK corporation tax payable	213	267
Other	221	3
Trade creditors	8,649	767
Owed to group companies	93	-
	9,176	1,037

#### 15. 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 Holdings Limited is the smallest group which produces accounts incorporating Cotesworth & Co. Limited.

The entire shareholdings held by the directors of Cotesworth Group Limited which was at the time the ultimate parent company of Cotesworth Capital Ltd, were sold to HIH European Holdings Limited on 13th October 1998.

#### 16. DIRECTORS INTERESTS

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