

COTESWORTH CAPITAL LIMITED
(In Provisional Liquidation)

REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 DECEMBER 2004

Registered No: 3265777



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Directors

N W Britten
G Davies
B G Devereese
H G Simons

Company Secretary

W Scott

Registered Office

8 Salisbury Square
London EC4Y 8BB

Bankers

Barclays Bank plc
54 Lombard Street
London EC3V 9EX

Auditors

CLB Littlejohn Frazer
Chartered Accountants and
Registered Auditors
1 Park Place
Canary Wharf
London E14 4HJ

Joint Provisional Liquidators

T A Riddell and J M Wardrop
KPMG LLP
8 Salisbury Square
London EC4Y 8BB

The directors present their report together with the financial statements for the period ended 31 December 2004.

Change of Accounting Reference Date

The Company has changed its accounting reference date and extended its current accounting period to 31 December 2004. Accordingly these accounts present the results of the Company for the eighteen months ended 31 December 2004 and the position as at 31 December 2004. The comparative information is for the year ended 30 June 2003 or as at 30 June 2003 as appropriate.

Results and Dividends

The profit for the period after taxation was £16,280,000 (2003 - profit £9,725,000). The profit for the period arises from a combination of exchange movements, the Company's share of the movement in the syndicates underwriting results during the period and the movement on the Run-off cost provision. Significant legal costs were incurred in the year and charged against the provision for run-off costs in respect of litigation pursued on behalf of the Company.

No dividend has been declared on the current results.

Review of the Business, Principal Activity and Future Developments

The principal activity of the company in the period under review was that of a corporate underwriting member of Lloyd's.

The company's underwriting capacity and allocation thereof is as shown below:

Syndicate Number	1997 Year of Account £'000	1998 Year of Account £'000	1999 Year of Account £'000	2000 Year of Account £'000	2001 Year of Account £'000
228	1,000	5,000	19,522	31,917	-
535	11,500	24,500	26,716	53,330	73,058
536	1,000	3,500	24,690	-	-
1069	1,000	16,000	24,365	32,504	-
1688	-	-	65,000	75,000	82,500
Total	<u>14,500</u>	<u>49,000</u>	<u>160,293</u>	<u>192,751</u>	<u>155,558</u>

Following the underwriting losses suffered by the company it was placed in provisional liquidation on 28 September 2001 and the financial statements have therefore not been prepared on a going concern basis.

The results for the period are shown on page 9 and Note 3 to the financial statements.

Directors and Directors' Interests

The following served as directors from 1 July 2003 to the date of this report unless shown otherwise. None of the directors and their families had an interest in the issued share capital of the company. The interests of the directors and their families in the issued share capital of HIH European Holding Company Limited were as follows:

	HIH European Holding Company Limited 31 December 2004			HIH European Holding Company Limited 1 July 2003		
	C1 Shares of 1p each	C2 Shares of 1p each	B Series Loan Notes	C1 Shares of 1p each	C2 Shares of 1p each	B Series Loan Notes
N W Britten	44,833	44,833	-	44,833	44,833	-
G Davies	44,833	44,833	-	44,833	44,833	-
B G Devereese	44,833	44,833	-	44,833	44,833	-
H G Simons	-	-	-	-	-	-

Parent Undertaking

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

Auditors

Littlejohn Frazer have changed their name to CLB Littlejohn Frazer..

Signed on behalf of the board.


 Director

21 November 2005

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

As explained in note 1 to the financial statements, the directors do not believe the going concern basis to be appropriate and these financial statements have not been prepared on that basis.

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. The Directors are responsible for ensuring the Report of the Directors is prepared in accordance with company law in the United Kingdom.

The directors cannot confirm that the financial statements comply with the above requirements.

Subsequent to joint provisional liquidators being appointed, the directors are no longer responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enabling them to ensure that the financial statements comply with the Companies Act 1985. At the same time they ceased to be responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention of fraud and other irregularities.

Independent Auditors' report to the shareholders of Cotesworth Capital Limited (In Provisional Liquidation)

We have audited the Financial Statements of Cotesworth Capital Limited (in Provisional Liquidation) for the period ended 31 December 2004 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Accounting Policies and the related notes 1 to 13. These Financial Statements have been prepared under the historical cost convention and the accounting policies set out on page 12.

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders 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 Annual Report and the Financial Statements in accordance with applicable law and Accounting Standards are set out in the Statement of Directors' Responsibilities, on page 6.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Report of the Directors is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company or Group is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of Opinion

We conducted our audit in accordance with United Kingdom 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 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.

Fundamental Uncertainties

As described in notes 1 and 2, the Company has been placed in provisional liquidation, and although provisions have been made to meet the future costs and underwriting losses it is uncertain whether these will be sufficient to meet all such costs and losses. In addition, the underwriting years supported by the Company are in run-off. Any successor reinsurers assessment of the premium required to close these years of account may be materially different from the current estimates included in these financial statements.

We have not been able to verify inter-company balances or the accuracy of the provision for non-recovery of amounts due from group entities made in 2001, as the other group members from whom and to whom the monies were owed have gone into liquidation and no final Financial Statements have been prepared for these companies for the year ended 30 June 2001 and subsequently.

Fundamental Uncertainties (Continued)

We have not been able to conclude on the accuracy of the balances brought forward from the 2003 financial statements due to the uncertainties affecting the 2003 financial statements.

Contrary to the provisions of Schedule 9A of the Companies Act 1985, the Financial Statements of the Company do not include a General Business Technical Account showing the underwriting transactions of the Lloyd's Syndicates underwriting business on behalf of the Company, and nor are the assets and liabilities of those Syndicates included in the Balance Sheet of the Company. These omissions do not have any affect on either the result for the period shown in the Profit and Loss Account, nor on the net liabilities of the Company as shown in the Balance Sheet. Also, as a result of these omissions, the Financial Statements have not been prepared in accordance with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business as issued by the Association of British Insurers in 2003.

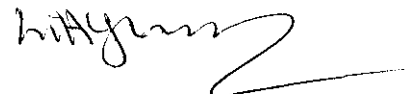
In view of the provisional liquidation of the Company, the Directors are unable to confirm that the Financial Statements have been prepared in accordance with the requirements set out on page 6.

Opinion: disclaimer on view given by the financial statements

Because of the fundamental nature of the uncertainties and omissions described above, we are unable to form an opinion as to whether the Financial Statements give a true and fair view of the state of the Company's affairs as at 31 December 2004 or of its profit for the period then ended. In addition, in view of the nature of the uncertainties and omissions described above, we are unable to form an opinion as to whether the Financial Statements have been prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to inter-company balances:

- We have not obtained all the information that we considered necessary for the purpose of the audit; and
- We were unable to determine whether proper accounting records had been maintained.

CLB 

CLB Littlejohn Frazer

Chartered Accountants
and Registered Auditors

21 November 2005

1 Park Place
Canary Wharf
London E14 4HJ

	Note	18 months to 31 December 2004 £'000	Year ended 30 June 2003 £'000
Balance Transferred from General Business Technical Account	3	16,939	10,319
Interest receivable	4	<u>54</u>	<u>48</u>
		16,993	10,367
Other charges		<u>(713)</u>	<u>(642)</u>
Profit on Ordinary Activities before Taxation	5	16,280	9,725
Tax on profit on ordinary activities	6	<u>-</u>	<u>-</u>
Profit for the Period		16,280	9,725
Retained loss brought forward		<u>(345,251)</u>	<u>(354,976)</u>
Retained loss carried forward		<u>(328,971)</u>	<u>(345,251)</u>

The company has no recognised gains or losses for the period other than the profit for the period stated above. There is no material difference between the reported profit for the period and the profit for the period restated on a historical cost basis.

The Company has ceased to trade and is currently running off its activities.

The Accounting Policies and Notes on pages 12 to 17 form part of these financial statements.

COTESWORTH CAPITAL LIMITED
(In Provisional Liquidation)

BALANCE SHEET
At 31 December 2004

	Note	2004 £'000	2003 £'000
Assets			
Debtors	7	98	14
Cash at Bank		<u>68</u>	<u>1,252</u>
		<u>166</u>	<u>1,266</u>
Liabilities and Reserves			
Called-up share capital	8	18,250	18,250
Profit and loss account		<u>(328,971)</u>	<u>(345,251)</u>
		<u>(310,721)</u>	<u>(327,001)</u>
Technical provisions:			
Provision for outstanding claims and run-off costs	10	11,377	38,988
Creditors	11	<u>299,510</u>	<u>289,279</u>
		<u>166</u>	<u>1,266</u>

Signed on behalf of the board on 21 November 2005.


B Devereese
Director

The Accounting Policies and Notes on pages 12 to 17 form part of these financial statements.

	Note	Period ended 31 December 2004 £'000	Year ended 30 June 2003 £'000
Net Cash Outflow from Operating Activities	12	(1,238)	(169)
Return on Investments and Servicing of Finance:			
Interest received		<u>54</u>	<u>48</u>
Decrease in Cash		<u>(1,184)</u>	<u>(121)</u>
Reconciliation of Net Cash Flow to Movement in Net Funds			
At 1 July		1,252	1,373
Decrease in cash in the period		<u>(1,184)</u>	<u>(121)</u>
Net funds at period end		<u>68</u>	<u>1,252</u>

The company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Cash Flow Statement is prepared reflecting only the movement in corporate funds.

The Accounting Policies and Notes on pages 12 to 17 form part of these financial statements.

Accounting Policies

Basis of Accounting

The financial statements are prepared under the historical cost basis of accounting and comply with applicable Accounting Standards. As stated in Notes 1 and 2 to the financial statements, these financial statements have not been prepared on the going concern basis.

The company participates in insurance business as an underwriting member of various syndicates at Lloyd's.

Underwriting Results

Lloyd's current accounting practice mandates that syndicates operate a three year fund basis of accounting.

The company follows this basis to the extent that profits are recognised when declared by the syndicate for the year of account after 36 months. Losses are recognised as soon as they are foreseeable. Technical provisions are increased to make them 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 based on the latest available information, including estimates provided by the Managing Agent, Capita Syndicate Management Limited. Such estimates are uncertain in nature and the effect of any over or underestimate will be included in future financial statements.

Technical Provision

In accordance with the above practice, the excess of premiums written and syndicate investment income over the claims and syndicate expenses paid in respect of business incepting in an underwriting year is carried forward for two years in a fund and no profit is recognised until the end of the third year following the start of each underwriting year when the underwriting account is normally closed. The fund is included as part of outstanding claims.

Closed Years of Account

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated costs of claims incurred but not reported at that date, and an estimate of future claims handling costs. Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle any outstanding claims in respect of that year.

Run-Off Years of Account

Where an underwriting year of account is not closed at the end of the third year (a 'run-off' year of account) a provision is made for the estimated cost of all known and unknown liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities of that year remains with the corporate member participating therein.

Deferred Taxation

Deferred taxation is provided at anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. Provision is made to the extent that it is likely that a liability will crystallise in the foreseeable future.

Cash Flow Statement

The company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the cash flow statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from the syndicates at Lloyd's.

1 Basis of Accounts Preparation

These financial statements have not been prepared on a going concern basis for the reasons stated in note 2. Therefore the assets of the Company have been recorded at their expected realisable value and liabilities at the amount at which they are expected to settle. The Company made a provision for future costs amounting to £1,000,000 at 30 June 2003, £1,213,000 of costs were incurred during the period ended 31 December 2004, and the provision increased by £713,000 leaving a balance of provision for run-off costs of £500,000 at 31 December 2004. Further, Lloyd's of London has agreed to meet certain costs of the Company while in provisional liquidation, these costs do not form part of the provision of £500,000.

It is uncertain whether the provision for future costs is sufficient to meet all future costs of the Company.

Estimates of losses arising from the Company's participation on a number of Lloyd's syndicates for various years of account have been based on the latest available information, including estimates provided by the Managing Agent. All the years of account on which the Company participates are in run-off. Any successor reinsurers assessment of the premium required to close these years of account may be materially different from the current estimates included in these financial statements. The eventual outcome of these years of account is therefore uncertain; the effect of any over or under estimate will be included in future financial statements.

The financial statements do not fully comply with schedule 9A of the Companies Act 1985. In particular, no general business technical account has been prepared for the Company and, therefore, the underwriting transactions undertaken by Lloyd's Syndicates on behalf of the Company and the detailed disclosure regarding the Company's underwriting activities have been omitted. The exclusion of these transactions has no impact on the Company's profit for the period.

The financial statements also exclude assets and liabilities arising from the Company's underwriting and controlled by the managing agents of the Lloyd's Syndicates supported by the Company. Had these assets and liabilities been included they would have had no impact on the profit for the period or on the net assets of the Company at 31 December 2004.

As a result of these omissions, the Financial Statements have not been prepared in accordance with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in 2003.

2 Provisional Liquidation

As a result of the underwriting losses expected to be incurred by the company, details of which are shown in note 3, the directors of the company were of the opinion that the company was unable to meet its liabilities as they fell due. On 28 September 2001 an order was made by the courts to place the company in provisional liquidation. Messrs T A Riddell and J M Wardrop were appointed provisional liquidators.

3 Technical Account Balance

	1997 Year of Account £'000	1998 Year of Account £'000	1999 Year of Account £'000	2000 Year of Account £'000	2001 Year of Account £'000	Total £'000
Cumulative Profits/(losses) for the underwriting year	1,845	(713)	(129,357)	(111,035)	(90,089)	(329,349)
Losses less profits previously provided						330,034
Exchange Gain						16,254
Profit for the period						<u>16,939</u>

3. Technical Account balance (Continued)

In accordance with the company's accounting policy, the result for the period has been based on the latest available information including the estimates given by the managing agent on a syndicate-by-syndicate basis in respect of the 1999, 2000 and 2001 (run-off) years of account.

The profit for the period arises from a combination of exchange movements and the Company's share of the movement in the syndicates underwriting results during the period.

4 Interest Receivable

	2004 £'000	2003 £'000
Interest receivable	<u>54</u>	<u>48</u>

5 Profit on Ordinary Activities before Taxation

This is stated after charging:

	2004 £'000	2003 £'000
Auditors' remuneration - audit	9	10
Provision for non-recovery of amounts due from group entities	-	4
Provision for run-off costs (note 10)	<u>713</u>	<u>642</u>

These items have been charged against the provision for run-off costs.

6 Taxation

Factors affecting tax charge for period

Due to the availability of tax losses brought forward no taxation charge arises on the profit for the period.

Factors that may affect future tax charges

Due to the significant losses incurred by the Company there are losses of approximately £300 million available for carry forward against future trading profits.

No deferred tax asset arising in respect of any unrelieved trading losses has been provided, as it is unlikely that the Company will be able to use these losses against future profitable activities.

7 Debtors

	2004 £'000	2003 £'000
Amounts due from group entities	-	-
Other	<u>98</u>	<u>14</u>
	<u>98</u>	<u>14</u>

Amounts due from group entities amounting to £17,504,000 (2003 - £17,504,000) have been fully provided for as the companies are in insolvency proceedings.

8 Called-Up Share Capital

	2004 £	2003 £	2004 £	2003 £
	Authorised		Allotted, called-up and fully paid	
Ordinary 'A' voting shares of £1 each	100	100	100	100
Ordinary 'B' Non voting shares of £1 each	<u>18,250,000</u>	<u>18,250,000</u>	<u>18,250,000</u>	<u>18,250,000</u>
	<u>18,250,100</u>	<u>18,250,100</u>	<u>18,250,100</u>	<u>18,250,100</u>

Only 'B' non-voting shares have rights to dividends. On a division of assets on 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.

9 Reconciliation of Movements in Shareholders' Funds

	2004 £'000	2003 £'000
Profit for the period	16,280	9,725
Opening shareholders' funds	<u>(327,001)</u>	<u>(336,726)</u>
Closing shareholders' funds	<u>(310,721)</u>	<u>(327,001)</u>

**10 Technical Provisions:
Provision for Syndicate Losses and Run-off Costs**

	2004 £'000	2004 £'000	2004 £'000	2003 £'000
	Syndicate Losses	Run-off Costs	Total	Total
1997 underwriting year	(1,845)	-	(1,845)	(1,845)
1998 underwriting year	713	-	713	713
1999 underwriting year	129,357	-	129,357	124,451
2000 underwriting year	111,035	-	111,035	112,417
2001 underwriting year	90,089	-	90,089	94,298
Run-off costs provision	<u>-</u>	<u>1,000</u>	<u>1,000</u>	<u>502</u>
Cash calls	329,349	1,000	330,349	330,536
Run-Off Costs charged against provision	<u>(318,472)</u>	<u>-</u>	<u>(318,472)</u>	<u>(292,046)</u>
Increase in Run-off cost provision	<u>-</u>	<u>713</u>	<u>713</u>	<u>642</u>
	<u>10,877</u>	<u>500</u>	<u>11,377</u>	<u>38,988</u>

The above cash calls include all amounts payable to the syndicates at the balance sheet date, including amounts funded from Letter of Credit drawdowns (see note 11) and from the Lloyd's New Central Fund.

Provision for outstanding claims includes claims handling fees.

Provision for run-off costs is in respect of all future administration costs to be incurred. Significant legal costs were incurred in the year and charged against the provision for run-off costs in respect of litigation pursued on behalf of the Company.

11 Creditors

	2004 £'000	2003 £'000
Owed to group companies	11,001	11,001
Other creditors	<u>288,509</u>	<u>278,278</u>
	<u>299,510</u>	<u>289,279</u>

Cash calls to date on syndicate open and run-off accounts have, in part, been funded by means of drawdown on Letters of Credit deposited at Lloyd's and from the Lloyd's New Central Fund. The Lloyd's New Central Fund has given an undertaking to fund up to £244.5 million of any unpaid cash calls made prior to 1 April 2006. It is anticipated that the Lloyd's New Central Fund will give further undertakings in respect of any cash calls made after 1 April 2006.

The amounts included in other creditors are as follows:

	2004 £'000	2003 £'000
Letter of Credit drawdowns	110,000	110,000
Lloyd's New Central Fund	<u>178,394</u>	<u>168,222</u>
	<u>288,394</u>	<u>278,222</u>

The amounts originally deposited by Cotesworth Capital Limited as security to Lloyd's under the terms of the Lloyd's Deposit and Security Trust Deeds and the analysis of drawdowns thereon is as follows:

	Original Deposit at Lloyd's £'000	Draw- downs to date £'000
Letter of Credit - issued by HSBC	25,842	25,842
Letter of Credit - issued by Societe Generale	30,000	30,000
Letter of Credit - issued by Westpac Banking Corporation	<u>54,158</u>	<u>54,158</u>
	<u>110,000</u>	<u>110,000</u>

12 Reconciliation of Operating Profit to Net Cash Outflow from Operating Activities

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	16,280	9,725
Interest receivable	(54)	(48)
Increase in creditors	10,231	96,268
(Increase) in debtors	(84)	(8)
(Decrease) in technical provisions	(27,111)	(106,604)
Increase/(decrease) in provision for run-off costs	<u>(500)</u>	<u>498</u>
Net Cash (Outflow) from Operating Activities	<u>(1,238)</u>	<u>(169)</u>

13 Parent Undertaking

The immediate parent undertaking is Cotesworth Holdings Limited, incorporated in Great Britain and registered in England and Wales. Cotesworth Holdings Limited was placed into liquidation on 26 September 2001. Accordingly no financial statements have been prepared for the year ended 30 June 2001 or subsequent years.

The company's intermediate parent undertaking is HIH European Holding Company Limited, incorporated in Great Britain and registered in England and Wales. This company was placed into liquidation on 29 October 2001. Accordingly no financial statements have been prepared for the year ended 30 June 2001 or subsequent years.

The ultimate parent undertaking is HIH Insurance Limited, which was placed into liquidation in Australia on 27 August 2001. Accordingly no group consolidated financial statements are available for the year ended 30 June 2001 or subsequent years.