

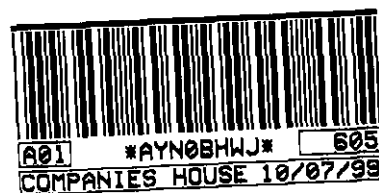
SANDS UNDERWRITING LIMITED

REPORT AND ACCOUNTS

FOR THE PERIOD ENDED

31 DECEMBER 1998

COMPANY REGISTRATION NO. 3442377



LITTLEJOHN FRAZER

CHARTERED ACCOUNTANTS

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Directors

D J Marshall
G P Nash

Company Secretary

G P Nash

Registered Office

Walbrook House
23 Walbrook
London EC4N 8BT

Members' Agent

Greenwich Lloyd's Underwriting Limited
Walbrook House
23 Walbrook
London EC4N 8BT

Bankers

Coutts & Co
Robart's Office
15 Lombard Street
London EC3V 9AU

Auditors

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

Solicitors

Eversheds
Senator House
85 Queen Victoria Street
London EC4V 4JL

The Directors have pleasure in presenting their Report together with the Accounts for the period from incorporation to 31 December 1998.

Incorporation

The Company was incorporated on 25 September 1997 as Sands Underwriting Limited.

Results and Dividends

The profit for the period before taxation was £7,425. The taxation charge was £1,600 leaving a profit after tax of £5,825.

The Directors do not recommend the payment of a dividend.

Review of the Business 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 commenced underwriting with effect from 1 January 1998.

Trading conditions in 1998 were difficult in all markets and represented a deterioration on earlier years. It is likely that the 1999 Account will produce only marginal results although there are some small signs of improvement in some areas of the market.

Directors and Directors' Interests

The Directors of the Company in office, during the period, and their interest in its share capital were as follows:

	At 31 December 1998	At date of Appointment
	Ordinary 25p shares	Ordinary 25p shares
D J Marshall (Appointed 29 September 1997)	15,000	15,000
G P Nash (Appointed 29 September 1997)	-	-

Year 2000

The Company's main software programmes are maintained by the Managing Agents of the Syndicates on which the Company participates. Lloyd's has introduced central procedures which should ensure these and the market-wide systems, will achieve Year 2000 compliance. The estimated incremental costs, if any, for modifying the remaining systems to achieve compliance is not material.

Auditors

The auditors, Littlejohn Frazer, will be proposed for reappointment in accordance with Section 385 of the Companies Act 1985.

By Order of the Board



G P Nash

Secretary

30 June 1999

To the Members of Sands Underwriting Limited

We have audited the Accounts on pages 5 to 17 which have been prepared under the Accounting Policies set out on pages 9 to 11.

Respective Responsibilities of Directors and Auditors

As described on page 9 the Company's Directors are responsible for the preparation of 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 assurance 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 the Company's affairs as at 31 December 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Littlejohn Frazer

Chartered Accountants
and Registered Auditors

30 June 1999

1 Park Place
Canary Wharf
London E14 4HJ

SANDS UNDERWRITING LIMITED**GENERAL BUSINESS TECHNICAL ACCOUNT**
Period ended 31 December 1998

	Note	1998
Gross Written Premiums	1	519,741
Outward reinsurance premiums		(116,261)
		<hr/>
Net Written Premiums		403,480
Allocated Investment Income	3	2,038
Claims paid	4	25,357
Change in provision for claims	5	244,092
		<hr/>
Claims Incurred Net of Reinsurance		(269,449)
Net operating expenses	6	(136,069)
		<hr/>
Balance Transferred to Non Technical Account		£ -
		<hr/>

The Accounting Policies and Notes on pages 9 to 17 form part of these Accounts.

SANDS UNDERWRITING LIMITED**PROFIT AND LOSS ACCOUNT**
Period ended 31 December 1998

	Note	1998
Balance Transferred from General Business Technical Account		-
Other income	7	10,320
Other charges		(2,895)
		<hr/>
Profit on Ordinary Activities before Taxation	8	7,425
Tax on profit on ordinary activities	9	(1,600)
		<hr/>
Profit for the Financial Period		£5,825
		<hr/>

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

The Accounting Policies and Notes on pages 9 to 17 form part of these Accounts.

SANDS UNDERWRITING LIMITED

BALANCE SHEET
At 31 December 1998

	Note	Assets and liabilities at Lloyd's	Corporate	1998 Total
Assets				
Investments	10	60,445	-	60,445
Debtors	11	207,305	15,625	222,930
Cash at bank	12	17,451	5,943	23,394
Other		4,035	-	4,035
Prepayments and accrued income	13	184	-	184
		<hr/>	<hr/>	<hr/>
		£289,420	£21,568	£310,988
		<hr/>	<hr/>	<hr/>
Liabilities and Reserves				
Called-up share capital	14	-	3,750	3,750
Share premium account	15	-	8,293	8,293
Profit and Loss Account	15	-	5,825	5,825
Technical Provisions:				
Provision for outstanding claims	16	240,970	-	240,970
Creditors	17	47,565	1,600	49,165
Accruals and deferred income	18	885	2,100	2,985
		<hr/>	<hr/>	<hr/>
		£289,420	£21,568	£310,988
		<hr/>	<hr/>	<hr/>

Approved by the Board on 30 June 1999.

G P Nash



Director

The Accounting Policies and Notes on pages 9 to 17 form part of these Accounts.

SANDS UNDERWRITING LIMITED**CASH FLOW STATEMENT**
Period ended 31 December 1998

	Note	1998
Net Cash Outflow from Operating Activities	22	(1,420)
Receipts from sale of syndicate participations		<u>10,320</u>
		<u>10,320</u>
Net Cash Inflow before Financing		8,900
Financing		
Expenses paid in connection with shares		<u>(2,957)</u>
		<u>(2,957)</u>
Increase in Cash and Cash Equivalents	23,24	£5,943

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.

The Accounting Policies and Notes on pages 9 to 17 form part of these Accounts.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare Accounts for each financial period 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 Accounts 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 Accounts;
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 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. The Accounting Policies selected are set out below.

Accounting Policies

Basis of Accounting

The Accounts are prepared under the historical cost basis of accounting modified to include the revaluation of investments, and comply with applicable Accounting Standards.

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

The Accounts have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985. Accounting information in respect of the Syndicate participations has been provided by the Syndicate managing agents through an information exchange facility operated by Lloyd's and has been reported upon by the Syndicate auditors.

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the Syndicates' managing agents and are shown separately on the Balance Sheet as "Assets and Liabilities at Lloyd's".

The Company has delegated sole management and control of its underwriting through each syndicate to its Members Agent, who deals with the Managing Agent of the Syndicate. The Managing Agents are, therefore, responsible for determining the insurance transactions to be recognised by the Company. The only exception to this role is the level of provision for outstanding claims on open or run-off years of account of syndicates. These provisions are determined by the Directors.

General Business

i. Premiums

Gross premiums are accounted for in the period in which the risk commences, together with adjustments to premium written in previous accounting periods. Future premiums relating to risks commencing in the period are based upon estimates made by the Syndicates' management. Other adjustments are accounted for as they arise.

ii. Claims

Provision is made for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date, and for the related cost of settlement. Claims incurred comprise amounts paid or provided in respect of claims occurring during the current year, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year.

iii. 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.

iv. 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.

v. 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 the 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 cost 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 element of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims.

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle liabilities outstanding at the closure of an underwriting account. The company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current year, and no further provision is made for any potential variation in the ultimate liability of that year of account.

vi. 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 outstanding 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 for that year remains with the corporate member participating therein.

vii. Investments and Allocated Investment Income

In accordance with Lloyd's current accounting practice, investments are stated at market value, including accrued interest at the Balance Sheet date. Investment income is included in the General Business Technical Account reflecting that earned on the investment portfolio managed by the Syndicates. The allocated investment income therefore comprises income received and investment profits and losses, net of investment expenses and charges arising in the calendar year including appreciation/depreciation and accrued interest consequent upon the revaluation of investments at 31 December. All gains and losses on investments are treated as realised at the Balance Sheet date.

viii. Net Operating Expenses

Operating expenses are charged to the underwriting year for which they were incurred. These include the Company's share of Syndicate operating expenses, the remuneration to Managing Agents and the direct cost of membership at Lloyd's.

xi. Taxation

The Company is taxed on its share of the underwriting results declared by syndicates and for tax purposes these are deemed to accrue evenly over the calendar year in which they are declared.

The Inland Revenue determines the taxable results of individual syndicates on the basis of computations by the Managing Agent. At the date of approval of these Accounts, none of the Syndicate taxable results have been agreed. 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 Accounts of subsequent periods.

x. Basis of Currency Translation

Syndicates maintain separate funds in sterling, United States and Canadian dollars. All transactions expressed in United States and Canadian dollars are translated into sterling at the rates of exchange ruling at the Balance Sheet date. Transactions during the year in other overseas currencies are expressed in sterling at the rates ruling at the transaction date.

xi. Debtors/Creditors arising from insurance/reinsurance operations

The amounts shown in notes 11 and 17 include the totals of all the Syndicates outstanding debit and credit transactions as processed by the Lloyd's Policy Signing Office; no account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate.

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.

Intangible Assets

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' underwriting years are included within intangible fixed assets and amortised over a 3 year period beginning in the third year after the underwriting commences in respect of the purchased syndicate participation.

SANDS UNDERWRITING LIMITED

NOTES TO THE ACCOUNTS

1. Segmental Analysis

	Gross Premium Written	Gross Claims Incurred	Operating Expenses	Reinsurance Balance
1998				
Direct business				
Accident and health	19,125	(10,877)	(7,016)	(804)
Motor - third party liability	32,419	(23,401)	(7,302)	(1,885)
Motor - other classes	48,002	(34,277)	(12,537)	(2,057)
Fire and other damage to property	46,407	(24,213)	(17,442)	(3,071)
Marine, aviation and transport	5,685	(5,519)	(1,454)	(939)
Third party liability	357,558	(244,004)	(91,557)	(24,874)
Other	4,757	(3,460)	3,015	(96)
Reinsurance business	5,788	(4,325)	(1,776)	(130)
	<hr/>	<hr/>	<hr/>	<hr/>
	£519,741	£(350,076)	£(136,069)	£(33,856)
	<hr/>	<hr/>	<hr/>	<hr/>

Calendar
Year

2. Geographical Analysis

1998

Direct gross premium written in:

United Kingdom	511,851
Other EU Member States	2,102
	<hr/>
	£513,953
	<hr/>

3. Allocated Investment Income

Investment income	1,695
Realised gain on investments	399
Investment expenses and charges	(56)
	<hr/>
	£2,038
	<hr/>

4. Claims Paid

Gross amount	29,422
Reinsurers' share	(4,065)
	<hr/>
	£25,357
	<hr/>

5. Change in the Provisions for Claims

Gross amount	320,654
Reinsurers' share	(76,562)
	<hr/>
	£244,092
	<hr/>

6. Net Operating Expenses			1998
Acquisition costs			103,064
Administrative expenses			33,131
Profit on exchange			(126)
			<hr/>
			£136,069
			<hr/>
7. Other Income			
Profit on sale of syndicate participations			£10,320
			<hr/>
8. Profit on Ordinary Activities before Taxation			
This is stated after charging:			
Auditors' remuneration - audit			£ 1,000
- other			£ 300
Directors' remuneration			£ -
			<hr/>
9. Taxation			
Corporation Tax at 21%			£1,600
			<hr/>
10. Investments			
	Assets and liabilities at Lloyd's	Corporate	1998 Total
Shares and other variable yield securities	547	-	547
Debt securities and other fixed income securities	43,241	-	43,241
Deposits with credit institutions	15,765	-	15,765
Other	892	-	892
	<hr/>	<hr/>	<hr/>
	£60,445	£ -	£60,445
	<hr/>	<hr/>	<hr/>
11. Debtors			
Arising out of direct insurance operations:			
Intermediaries	197,687	-	197,687
Arising out of reinsurance operations	7,665	-	7,665
Other	1,953	625	2,578
Called-up share capital not paid	-	15,000	15,000
	<hr/>	<hr/>	<hr/>
	£207,305	£15,625	£222,930
	<hr/>	<hr/>	<hr/>

12. Cash at Bank and in Hand

	Assets and liabilities at Lloyd's	Corporate	1998 Total
Cash at bank and in hand	£17,451	£5,943	£23,394
	<u> </u>	<u> </u>	<u> </u>

13. Prepayments and Accrued Income

Accrued income	£184	£ -	£184
	<u> </u>	<u> </u>	<u> </u>

14. Called-up Share Capital

	1998	1998
	Authorised	Allotted and called-up
Ordinary shares of 25p each	£1,000,000	£3,750
	<u> </u>	<u> </u>

15,000 25p Ordinary shares were issued on 25 September 1997. They were issued at a premium of 75p giving rise to a share premium account of £11,250.

15. Reserves

	1998	1998 Profit and Loss Account
	Share premium	
Arising on issue of shares	11,250	-
Issue expenses	(2,957)	-
Retained profit for the period	-	5,825
	<u> </u>	<u> </u>
Balance at 31 December 1998	£8,293	£5,825
	<u> </u>	<u> </u>

16. Provision for Outstanding Claims

	Assets and liabilities at Lloyd's	Corporate	1998 Total
Gross claims	316,464	-	316,464
Reinsurers' share	(75,494)	-	(75,494)
	<u> </u>	<u> </u>	<u> </u>
	£240,970	£ -	£240,970
	<u> </u>	<u> </u>	<u> </u>

17. Creditors

	Assets and liabilities at Lloyd's	Corporate	1998 Total
Arising out of direct insurance operations	8,567	-	8,567
Arising out of reinsurance operations	35,362	-	35,362
Other creditors	3,636	1,600	5,236
	<hr/>	<hr/>	<hr/>
	£47,565	£1,600	£49,165
	<hr/>	<hr/>	<hr/>

18. Accruals and Deferred Income

Accruals	£885	£2,100	£2,935
	<hr/>	<hr/>	<hr/>

19. Reconciliation of Movements in Shareholders' Funds

Profit for the financial period	5,825
New share capital subscribed	3,750
Share premium on new share capital	11,250
Issue expenses	(2,957)
Opening shareholders' funds	-
	<hr/>
Closing shareholders' funds	£17,868
	<hr/>

20. Contingent Liabilities

As explained in the Accounting Policies on page 9 with effect from 1 January 1998, the Company participates on insurance business written by Lloyd's Syndicates. As a result of this participation, the Company is exposed to claims arising on insurance business written by those Syndicates.

The net results of the Company's participation on those Syndicates for any underwriting year will not be calculated until the 3rd anniversary of the commencement of that underwriting year at the earliest.

21. Related Party Transactions

Included in debtors is an amount of £15,000 due from D J Marshall who is a Director of the Company. This amount represents unpaid share capital and has been outstanding during the period. No interest is paid on this amount.

To enable the Company to participate on the 1998 Underwriting Account D J Marshall, a Director, transferred his 1998 capacity to the Company for Nil value and made available to Lloyd's assets amounting to approximately £343,000 which are used by the Company to support its Lloyd's underwriting.

G Nash is a Director of Greenwich Lloyd's Underwriting Limited. The Company has entered into a Standard Lloyd's agency agreement with Greenwich Lloyd's Underwriting Limited.

**22. Reconciliation of Operating Profit to Net Cash
Outflow from Operating Activities**

	1998
Operating loss	(2,895)
(Increase)/decrease in debtors	(625)
Increase/(decrease) in creditors	2,100
	<hr/>
Net Cash Outflow from Operating Activities	£(1,420)
	<hr/>

**23. Analysis of Changes in Cash and
Cash Equivalents during the Period**

Balance brought forward	-
Net cash inflow	5,943
	<hr/>
	£5,943
	<hr/>

**24. Analysis of Balance of Cash and
Cash Equivalents as shown in the
Balance Sheet**

	Change in period	1998
Cash at bank and in hand	£5,943	£5,943
	<hr/>	<hr/>

25. Funds at Lloyd's

The shareholder of the Company has made available to Lloyd's assets amounting to approximately £343,000 which are used by the Company to support its Lloyd's underwriting. The funds are also available to Lloyd's to meet the personal underwriting liabilities of the shareholder for underwriting years commencing prior to 1 January 1998.

26. The Company is or was an Underwriting Member
of the following Syndicates

Syndicate No.	Managing Agent	1999 Allocated capacity	1998 Allocated capacity
37	Ockham Personal Insurance Agency Limited	50,804	47,481
45	Bankside Syndicates Limited	16,500	16,500
218	Christopherson Heath Ltd	-	51,600
386	Janson Green Limited	41,280	41,280
544	Chartwell Managing Agents Limited	45,000	50,000
839	Chartwell Managing Agents Limited	100,000	221,000
963	Crowe Syndicate Management Limited	25,000	-
1101	Trafalgar Underwriting Agencies Limited	-	28,750
1156	Bankside Syndicates Limited	25,000	25,000
		<hr/>	<hr/>
		£303,584	£481,611
		<hr/>	<hr/>