

Company registration number (England and Wales): 3829477

KILLYGOWAN LTD

DIRECTOR'S REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004



HUMPHREY & CO
Chartered Accountants

8 - 9 The Avenue
Eastbourne
East Sussex
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KILLYGOWAN LTD

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KILLYGOWAN LTD

COMPANY INFORMATION

COMPANY PERSONNEL

Directors Lord James Abercorn

Company Secretary Aequanimiter Limited

COMPANY ADDRESSES

Registered office Peninsular House
36 Monument Street
London
EC3R 8LJ

Lloyd's sponsor CBS Private Capital Limited
Peninsular House
36 Monument Street
London EC3R 8LJ

Member's agent CBS Private Capital Limited
Peninsular House
36 Monument Street
London EC3R 8LJ

Auditors Humphrey & Co
8 - 9 The Avenue
Eastbourne
East Sussex
BN21 3YA

Solicitors Morton Fraser
30-31 Queen Street
Edinburgh
EH2 1JX

KILLYGOWAN LTD

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2004

The director has pleasure in presenting his report together with the financial statements for the year ended 31 December 2004.

Results and dividends

The profit for the year after taxation was £86,485 (2003 loss £22,723). The director does not recommend the payment of a dividend.

Principal activities and review of the business

The principal activity of the Company in the year under review was that of a corporate underwriting member of Lloyd's. The Company commenced underwriting with effect from 1 January 2000.

The result for the year includes movements from Syndicates that closed the 2002 underwriting account and from Syndicates in run-off, compared to the provisions previously established for these losses. The 2003 and 2004 open underwriting accounts will normally close at 31 December 2005 and 2006 respectively. The syndicates identified on page 22 continue to be unable to obtain a reinsurance to close. The market is currently forecast to make an overall profit for the 2003 and 2004 underwriting accounts. The company has continued to underwrite on the 2005 underwriting account where the market conditions are considered favourable for a profitable outcome subject to the level of claims experienced.

Directors and director's interests


The director who held office during the year is listed below together with his interests in the shares of the company:

	Ordinary £1.00 shares	
	31 December 2004	1 January 2004
Lord James Abercorn	200	200

Auditors

Messrs. Humphrey & Co, having signified their willingness to continue in office, will be proposed for re-appointment in accordance with section 386 of the Companies Act 1985.

Approved by the Board on 14 June 2005 and signed on its behalf by:


Lord James Abercorn
Director

KILLYGOWAN LTD

STATEMENT OF DIRECTOR'S RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2004

Company law requires the director 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 year. In preparing those financial statements, the director is 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985.

The director is 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.

KILLYGOWAN LTD

INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF KILLYGOWAN LTD

We have audited the financial statements of Killygowan Ltd on pages 5 to 22 for the year ended 31 December 2004. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the director and auditors

As described in the statement of director's responsibilities on page 3 the company's director is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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 director's report 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 director's remuneration and transactions with the company is not disclosed.

We read the director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with 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 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.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures in note 21 to the financial statements concerning the material exposure that the company faces in respect of losses relating to the 11 September 2001 terrorist attacks in the United States of America. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Humphrey & Co
Chartered Accountants
Registered Auditor

8-9 The Avenue
Eastbourne
East Sussex
BN21 3YA

30 June 2005

KILLYGOWAN LTD**PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT (GENERAL BUSINESS)
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 £	2003 £
Gross premiums written	2	1,085,513	841,482
Outward reinsurance premiums		(125,947)	(135,035)
Earned premiums net of reinsurance		959,566	706,447
Allocated investment income	4	32,740	26,895
Claims paid			
Gross amount		(398,880)	(455,496)
Reinsurers' share		139,863	193,368
Net claims paid		(259,017)	(262,128)
Change in provision for claims			
Gross amount		(434,027)	81
Reinsurers' share		58,025	(184,340)
Net change in provision for claims		(376,002)	(184,259)
Claims incurred net of reinsurance		(635,019)	(446,387)
Net operating expenses	5	(260,174)	(292,875)
Investment expenses and charges		(1,094)	(980)
Balance on technical account for general business		96,019	(6,900)

KILLYGOWAN LTD

PROFIT AND LOSS ACCOUNT - NON TECHNICAL ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 £	2003 £
Balance on the general business technical account	6	96,019	(6,900)
Investment income	7	462	474
Other income	8	1,462	1,480
Other charges		(11,458)	(17,777)
Profit/(Loss) on ordinary activities before taxation	9	86,485	(22,723)
Tax on profit/(loss) on ordinary activities	17	-	-
Profit/(Loss) for the financial year		86,485	(22,723)

The company has no recognised gains or losses other than the profit/(loss) for the financial years stated above.

All amounts above relate to continuing operations.

KILLYGOWAN LTD
BALANCE SHEET
AS AT 31 DECEMBER 2004

	Note	Syndicate Assets £	Corporate £	2004 Total £	2003 Total £
ASSETS					
Intangible assets					
Syndicate participation rights	10	-	22,168	22,168	20,942
Investments					
Financial investments	11	1,035,871	-	1,035,871	874,262
Deposits with ceding undertakings		678	-	678	1,126
		1,036,549	-	1,036,549	875,388
Reinsurers' share of technical provisions					
Claims outstanding		605,472	-	605,472	752,562
Debtors					
Arising out of direct insurance operations					
Policyholders		29,622	-	29,622	798
Intermediaries		210,172	-	210,172	211,810
Arising out of reinsurance operations		503,706	-	503,706	561,082
Other debtors	12	52,070	-	52,070	116,606
		795,570	-	795,570	890,296
Other assets					
Cash at bank	13	133,463	18,634	152,097	121,723
Other		93,644	-	93,644	85,923
		227,107	18,634	245,741	207,646
Prepayments and accrued income					
Other prepayments and accrued income		6,603	-	6,603	5,419
Total assets		2,671,301	40,802	2,712,103	2,752,253

/continued...

KILLYGOWAN LTD

BALANCE SHEET (continued) AS AT 31 DECEMBER 2004

	Note	Syndicate Liabilities £	Corporate £	2004 Total £	2003 Total £
LIABILITIES					
Capital and reserves					
Called-up share capital	14	-	200	200	200
Share premium account	15	-	-	-	-
Profit and loss account	15	95,906	(300,298)	(204,392)	(290,877)
Shareholder's funds attributable to equity interests	16	95,906	(300,098)	(204,192)	(290,677)
Technical provisions					
Claims outstanding - gross amount		2,415,930	-	2,415,930	2,585,451
Provisions for other risks and charges					
Provision for taxation	17	-	-	-	-
Deposits received from reinsurers		1,920	-	1,920	7,508
Creditors					
Arising out of direct insurance operations		16,758	-	16,758	19,761
Arising out of reinsurance operations		66,673	-	66,673	94,885
Amounts due to credit institutions		669	-	669	1,789
Other creditors	18	71,285	339,097	410,382	328,736
		155,385	339,097	494,482	445,171
Accruals and deferred income					
Other accruals and deferred income		2,160	1,803	3,963	4,800
Total liabilities		<u>2,671,301</u>	<u>40,802</u>	<u>2,712,103</u>	<u>2,752,253</u>

Approved by the Board on 11 June 2005 and signed on its behalf by:


Lord James Abercorn
Director

KILLYGOWAN LTD**CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 £	2003 £
Net cash inflow from operating activities	19	1,371	16,305
Returns on investments and servicing of finance			
Interest received	462	474	
Interest paid	-	-	
Dividends received	-	-	
Net cash inflow from returns on investments and servicing of finance		462	474
Taxation			
UK corporation tax paid	-	-	
Foreign tax paid	-	-	
Net cash inflow from taxation		-	-
Capital expenditure and financial investment			
Purchase of syndicate participation rights	(8,962)	(10,965)	
Proceeds from sale of syndicate participation rights	2,374	2,449	
Purchase of investments	-	-	
Proceeds from sale of investments	-	-	
Net cash outflow from capital expenditure and financial investment		(6,588)	(8,516)
Net cash (outflow)/inflow before financing		(4,755)	8,263
Financing			
Funds lent to the company by the company's shareholders	6,588	-	
Issue of share capital	-	-	
Net cash inflow from financing		6,588	-
Increase in cash		1,833	8,263
Net funds at 1 January		16,801	8,538
Increase in cash in the year		1,833	8,263
Net funds at 31 December		18,634	16,801

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.

KILLYGOWAN LTD

NOTES TO THE ACCOUNTS - ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2004

1 Accounting policies

Basis of accounting

The Financial Statements 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 Financial Statements have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985 and the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in 1998. 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.

Amounts reported in the General Business Technical Account relate to the movements in the calendar year in respect of all relevant years of account of the Syndicates.

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 "Syndicate Assets" and "Syndicate Liabilities". The assets are held subject to trust deeds for the benefit of the Syndicates' insurance creditors.

In continuing to apply the going concern basis to this Company's Financial Statements the following factors have been taken into account: the likely timing of any underwriting and non-underwriting cash flows, any Funds at Lloyd's supporting the Company's underwriting and not reflected in the Company's Balance Sheet and the continued support of the Directors and Shareholders including the potential deferral of balances due to them.

General business

i Premiums

Gross premiums are accounted for in the period in which the risk commences, together with adjustments to premiums 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 arising.

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.

KILLYGOWAN LTD

NOTES TO THE ACCOUNTS - ACCOUNTING POLICIES (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

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

The director considers 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 the 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. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close, this will include any difference in the price that is ultimately charged for the reinsurance to close premium compared to the syndicates current estimate.

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 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.

KILLYGOWAN LTD

NOTES TO THE ACCOUNTS - ACCOUNTING POLICIES (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

viii Basis of currency translation

Syndicates maintain separate funds in Sterling, United States and Canadian dollars, and may also do so in certain other currencies. All transactions where separate currencies are maintained 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.

ix Debtors/creditors arising from insurance/reinsurance operations

The amounts shown in the Balance Sheet include the totals of all the Syndicates outstanding debit and credit transactions. 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 tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities have not been discounted.

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 assets and amortised over a 3 year period beginning in the third year after the underwriting commences in respect of the purchased Syndicate participation.

Investments

Investments held directly by the company, by trustees of the Premium Trust Fund, or as the Lloyds Deposit, are stated at market value.

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

2 Class of business	Gross written premiums £	Gross claims incurred £	Operating expenses £	Reinsurance balance £
2004				
Direct				
Accident and health	19,233	(10,148)	(8,156)	(2,171)
Motor - third party liability	12,709	(3,015)	(12,243)	813
Motor - other classes	63,282	(41,263)	(19,437)	(8,451)
Marine, aviation and transport	90,097	(37,039)	(30,379)	(16,908)
Fire and other damage to property	165,239	(81,708)	(54,260)	(1,130)
Third party liability	250,023	(253,375)	(64,158)	75,067
Credit and suretyship	11,762	(5,626)	(4,552)	(2,935)
Other	8,011	(17,177)	(2,441)	3,294
Total direct	620,356	(449,351)	(195,626)	47,579
Reinsurance business				
Reinsurance acceptances	202,927	(91,849)	(64,548)	(36,693)
Reinsurance to close	262,230	(291,707)	-	61,055
Total reinsurance	465,157	(383,556)	(64,548)	24,362
Total	1,085,513	(832,907)	(260,174)	71,941
2003				
Direct				
Accident and health	18,698	(9,169)	(7,572)	(1,225)
Motor - third party liability	4,361	(965)	(2,969)	(347)
Motor - other classes	12,902	8,777	(5,768)	(1,868)
Marine, aviation and transport	83,394	18,061	(36,885)	107,991
Fire and other damage to property	132,918	7,187	(57,647)	(147,898)
Third party liability	272,983	(204,079)	(80,606)	(74,444)
Credit and suretyship	6,803	(22,412)	(5,629)	119
Other	1,601	2,851	(2,336)	(4,242)
Total direct	533,660	(199,749)	(199,412)	(121,914)
Reinsurance business				
Reinsurance acceptances	248,543	2,895	(93,463)	(161,129)
Reinsurance to close	59,279	(258,561)	-	157,036
Total reinsurance	307,822	(255,666)	(93,463)	(4,093)
Total	841,482	(455,415)	(292,875)	(126,007)

Any open year loss provisions, stop loss premiums and stop loss recoveries have been allocated across the classes of business by reference to the gross premiums written.

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

3	Geographical analysis	2004	2003		
		£	£		
	Direct gross premiums written in:				
	United Kingdom	1,084,143	841,482		
	Other EU member states	-	-		
	The rest of the world	1,370	-		
		<u>1,085,513</u>	<u>841,482</u>		
4	Allocated investment income	2004	2003		
		£	£		
	Investment income	41,658	36,471		
	Realised loss on investments	(8,918)	(9,576)		
		<u>32,740</u>	<u>26,895</u>		
5	Net operating expenses	2004	2003		
		£	£		
	Acquisition costs	141,496	173,975		
	Administrative expenses	65,762	56,807		
	Loss on exchange	52,916	62,093		
		<u>260,174</u>	<u>292,875</u>		
6	Transfer from Technical Account	2002	2003	2004	
		Underwriting	Underwriting	Underwriting	Total
		account	account	account	£
		£	£	£	
	Profit for the year	96,019	-	-	96,019
	Profit previously transferred	-	-	-	-
		<u>96,019</u>	<u>-</u>	<u>-</u>	<u>96,019</u>

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

7	Investment income	2004	2003
		£	£
	Income from other investments (including interest receivable)	462	474
	Realised gain from other investments	-	-
	Unrealised gain from other investments	-	-
		462	474
8	Other income	2004	2003
		£	£
	Profit on sale of syndicate participation rights	1,462	1,480
	Other	-	-
		1,462	1,480
9	Profit/(Loss) on ordinary activities before taxation	2004	2003
		£	£
	This is stated after charging:		
	Auditor's remuneration - audit	535	500
	Auditor's remuneration - other	1,000	1,000
	Amortisation of syndicate capacity	6,824	7,679

The company has no employees.

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

10 Intangible assets

Syndicate Participation Rights £

Cost

At 1 January 2004	62,801
Additions	8,962
Disposals	(8,062)
At 31 December 2004	63,701

Amortisation

At 1 January 2004	41,859
Charge for the year	6,824
Impairment losses	-
Disposals	(7,150)
At 31 December 2004	41,533

Net book value

At 31 December 2004	22,168
At 31 December 2003	20,942

11 Investments: Financial investments

	Syndicate £	Corporate £	2004 Total £	2003 Total £
At market value				
Shares and other variable yield securities	66,027	-	66,027	70,512
Debt securities and other fixed income securities	904,021	-	904,021	762,011
Participation in investment pools	25,536	-	25,536	16,791
Loans guaranteed by mortgage	-	-	-	262
Other loans	17	-	17	-
Deposits with credit institutions	40,156	-	40,156	23,702
Other	114	-	114	984
	1,035,871	-	1,035,871	874,262
Listed investments included within the above	958,557	-	958,557	705,341

The corporate investments held include £Nil (2003: £Nil) at market value in respect of Lloyd's deposits that are held in accordance with the constraints detailed in note 20.

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

11 Investments: Financial investments (continued)

	Syndicate	Corporate	2004 Total	2003 Total
	£	£	£	£
At cost				
Shares and other variable yield securities	57,446	-	57,446	64,681
Debt securities and other fixed income securities	903,311	-	903,311	877,412
Participation in investment pools	33,790	-	33,790	23,821
Loans guaranteed by mortgage	-	-	-	262
Other loans	-	-	-	-
Deposits with credit institutions	17,006	-	17,006	12,627
Other	186	-	186	330
	<u>1,011,739</u>	<u>-</u>	<u>1,011,739</u>	<u>979,133</u>

12 Debtors

	Syndicate	Corporate	2004 Total	2003 Total
	£	£	£	£
Deferred tax	-	-	-	-
Other	52,070	-	52,070	116,606
	<u>52,070</u>	<u>-</u>	<u>52,070</u>	<u>116,606</u>

Corporate other debtors includes £Nil (2003: £61,952) representing cash calls paid to Syndicates.

These cash calls will be offset against the Syndicate result for the year on which the cash call is made when that year closes. These amounts may therefore not be recoverable within 12 months. Any amounts shown as deferred tax are unlikely to be recovered within 12 months.

13 Cash at bank

	Syndicate	Corporate	2004 Total	2003 Total
	£	£	£	£
Lloyd's deposit	-	18,515	18,515	7,746
Cash at bank and in hand	133,463	119	133,582	113,977
	<u>133,463</u>	<u>18,634</u>	<u>152,097</u>	<u>121,723</u>

Any Lloyd's deposit is held in accordance with the constraints detailed in note 20.

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

14 Share capital

2004
£

2003
£

Authorised

100,000 Ordinary shares of £1.00 each

100,000

100,000

Allotted, called up and fully paid

200 Ordinary shares of £1.00 each

200

200

15 Statement of movements on reserves

Share
premium
account
£

Profit
and loss
account
£

At 1 January 2004

-

(290,877)

Premium on shares issued during the year

-

-

Retained profit during the year

-

86,485

At 31 December 2004

-

(204,392)

16 Reconciliation of movements in shareholders' funds

2004
£

2003
£

Profit/(Loss) for the financial year

86,485

(22,723)

Proceeds from the issue of shares

-

-

Net addition to/(depletion in) shareholders' funds

86,485

(22,723)

Opening shareholders' funds

(290,677)

(267,954)

Closing shareholders' funds

(204,192)

(290,677)

17 Taxation

2004
£

2003
£

Analysis of charge in year

Current tax

UK Corporation tax on profits of the year

-

-

Adjustments in respect of prior years

-

-

Foreign tax

-

-

Total current tax

-

-

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

17 Taxation (continued)

2004	2003
£	£

Analysis of charge in year

Deferred tax

Origination and reversal of timing differences

-	-
---	---

Changes in tax rates

-	-
---	---

Adjustment to the estimated recoverable amounts of deferred tax assets arising in prior years

-	-
---	---

Other items

-	-
---	---

Total deferred tax

-	-
---	---

Tax on profit/(loss) on ordinary activities

-	-
---	---

Factors affecting tax charge for the year

The tax assessed for the year is lower (2003 - higher) than the standard rate of Corporation Tax in the UK of 19.00% (2003 - 19.00%). The differences are explained below:

2004	2003
£	£

Profit/(Loss) on ordinary activities before taxation

86,485	(22,723)
--------	----------

Profit/(Loss) on ordinary activities before taxation multiplied by the standard rate of Corporation Tax in the UK of 19.00% (2003 - 19.00%).

16,432	(4,317)
--------	---------

Effects of:

Expenses not deductible for tax purposes

-	-
---	---

Timing differences arising from the taxation of the underwriting results

(39,773)	(18,937)
----------	----------

Timing differences arising from the taxation of syndicate participation movements

(1,099)	(428)
---------	-------

Tax losses carried forward

24,440	23,682
--------	--------

Adjustments to tax charge in respect of prior periods

-	-
---	---

Other adjustments

-	-
---	---

Current tax charge for the year

-	-
---	---

Factors that may affect future tax charges

The company has trading losses of £276,789 (2003 - £148,242) available for carry forward against future trading profits.

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

17 Taxation (continued)

2004	2003
£	£

Provision for deferred tax

At 1 January 2004

Charge to the profit and loss account

Released or utilised in the year

At 31 December 2004

-	-
-	-
-	-
-	-
-	-

Full provision has been made for all timing differences apart from the recovery of taxation losses against future trading profits, which cannot be prudently anticipated at this time.

18 Other creditors

Syndicate	Corporate	2004	2003
£	£	£	£

Other creditors

Social security costs

Corporation tax

Shareholders' loan account

71,285	104,696	175,981	100,923
-	-	-	-
-	-	-	-
-	234,401	234,401	227,813
71,285	339,097	410,382	328,736

The above shareholders' loan has been included in the related party transactions note 22.

19 Reconciliation of operating profit/(loss) before interest to net cash inflow from operating activities

2004	2003
£	£

Operating profit/(loss) before interest

Current year result not distributable in year

Prior year result distributable in year

Profit on sale of syndicate participation rights

Increase in creditors

Decrease in debtors

Amortisation and impairment of syndicate participation rights

Net cash inflow from operating activities

86,023	(23,197)
(96,019)	6,900
(113,315)	(106,566)
(1,462)	(1,480)
57,368	46,899
61,952	86,070
6,824	7,679
1,371	16,305

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

20 Fund's at Lloyd's

Cash balances of £18,515 (2003: £7,746) detailed in note 13 and investments of £Nil (2003: £Nil) detailed in note 11 are held within the company's Lloyd's deposit.

The Lloyd's deposit represents funds deposited with the Corporation of Lloyd's (Lloyd's) to support the company's underwriting activities as described in the accounting policies. The company has entered into a legal agreement with Lloyd's which gives the Corporation the right to apply these funds in settlement of any claims arising from the company's participation on Lloyd's Syndicates. These funds can only be released from the provision of this deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset or after the expiration of the company's liabilities in respect of its underwriting.

In addition to these amounts, the shareholders of the company have also made available to Lloyd's assets amounting to approximately £422,000 (2003: £357,000) which are also used by the company to support its Lloyd's underwriting. These funds are also available to Lloyd's to meet the personal underwriting liabilities of the shareholders for underwriting years prior to the commencement of trading by the company.

21 Losses relating to 11 September 2001 terrorist attacks in the United States of America

As a result of the terrorist attacks on 11 September 2001 the world insurance market is faced with unprecedented losses across a wide range of business underwritten. Many Lloyd's syndicates, including syndicates supported by this company have material exposure to claims arising from this event. These claims fall mainly on the 2001 underwriting year. Although the 2001 underwriting year closed for most syndicates in 2003, there are a number that are still in run-off and include exposure to this event and their liabilities will be subject to re-assessment prior to ultimate closure.

The loss provision established by the company for those syndicates in run-off is based upon the estimate of losses as calculated by the management of the syndicates. The size and nature of the 11 September 2001 claims, the legal uncertainties that arise and the ability of syndicates to collect amounts that become due from reinsurers, all increase the level of uncertainty of the total provision for outstanding claims that is necessary. As a result the losses currently estimated by the directors have a greater degree of uncertainty than usual and may or may not prove to be materially different to the eventual cost of these claims.

22 Related party transactions

Lord Abercorn is the controlling director and shareholder of the company. During 2004 he provided funding of £6,588 (2003 - £nil). No amounts were repaid and included within the creditors at 31 December 2004 is £234,401 (2003 - £227,813) which is due to Lord Abercorn. This amount is shown separately in note 18 under Shareholders' loan account. No interest is chargeable on the amount outstanding.

KILLYGOWAN LTD

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

23 Syndicates

The company is or was an Underwriting Member of the following Syndicate(s) or MAPA's:

Syn. No.	Managing agent	2005 Allocated Capacity	2004 Allocated Capacity	2003 Allocated Capacity	2002 Allocated Capacity *
0002	Advent Underwriting Limited	-	-	-	28,044
0033	Hiscox Syndicates Limited	102,142	100,000	117,596	69,998
0218	Cox Syndicate Management Limited	65,000	50,000	-	-
0260	KGM Underwriting Agencies Limited	29,998	-	-	-
0318	Beaufort Underwriting Agency Limited	40,000	-	-	-
0340	St Paul Travelers Syndicate	-	-	-	27,778
0386	Limit Underwriting Limited	80,001	100,000	95,856	63,904
0510	R J Kiln & Co Limited	99,999	40,000	-	-
0609	Atrium Underwriters Limited	90,489	81,407	72,362	59,100
0623	Beazley Furlonge Limited	-	75,008	75,000	75,121
0727	S A Meacock & Co Limited	49,370	30,915	28,733	24,986
0780	Advent Underwriting Limited	38,766	41,895	44,099	22,500
0958	Omega Underwriting Agents Limited	65,000	100,237	68,562	48,973
1003	Catlin Underwriting Agencies Limited	-	-	-	44,492
1007	SVB Syndicates Limited	-	44,056	30,798	30,798
2001	Amlin Underwriting Limited	-	-	53,261	85,219
2010	Cathedral Underwriting Limited	50,000	38,747	30,998	18,562
2020	Wellington Underwriting Agencies Limited	100,000	86,920	83,348	74,418
2525	Abacus Syndicates Limited	36,562	-	-	-
2526	Abacus Syndicates Limited	28,878	25,000	-	-
2791	Managing Agency Partners Limited	50,000	36,618	36,618	29,512
* shading denotes year of account in run-off		£ 926,205	£ 850,803	£ 737,231	£ 703,405

In addition the company is still participating on the following syndicates or MAPA's in run-off:

Syn. No.	Managing agent	Year of Account	Allocated Capacity
0002	Advent Underwriting Limited	2001	20,000
0340	St Paul Travelers Syndicate	2001	22,223
0435	Faraday Underwriting Limited	2001	50,000
0588	XL London Market Limited	2001	30,000
0861	XL London Market Limited	2001	50,000
0062	Marlborough Underwriting Agency Limited	2000	25,000
0138	Syndicate 138 Agency Limited	2000	15,000
0205	Jago Managing Agency Limited	2000	25,000
0340	St Paul Travelers Syndicate	2000	25,000
0435	Faraday Underwriting Limited	2000	50,000