

4011388

Kite Dedicated Limited

Report and Financial Statements 31 December 2006



Registered No. 4011388

DIRECTORS

R J Murphy
G Nash

SECRETARY

K T Fox

AUDITORS

Ernst & Young LLP
1 More London Place
London
SE1 2AF

REGISTERED OFFICE

6 Bevis Marks
London
EC3A 7HL

DIRECTORS' REPORT

The Directors present the report and financial statements for the year ended 31 December 2006

RESULTS AND DIVIDENDS

The results of the year under review show a profit of £ 4,943,000 (2005 loss - £45,207,000) before taxation. The Directors recommend that no dividend should be paid (2005 - £nil)

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

Kite Dedicated Limited traded as a corporate member at Lloyd's solely underwriting on Syndicate 102 for the 2001, 2002 and 2003 years of account. On 31 October 2003, Syndicate 102 ceased trading and went into run-off as a result of material losses arising from certain lines of business, initially underwritten in the soft market conditions of 1999 and 2000, deteriorating significantly during 2003 and deficiencies in the syndicate's reinsurance programme. The deterioration was primarily caused by the legal expenses and contingent cost insurance accounts. Both of these accounts deteriorated further during 2005.

The net assets of Kite Dedicated Limited show a deficit of £323.4 million as at 31 December 2006, which is wholly attributable to losses on underwriting, provisions for run-off costs and the write-off of capacity rights. Goshawk Insurance Holdings plc, the former ultimate parent undertaking at the balance sheet date of Kite Dedicated Limited, will not commit further capital to Kite Dedicated Limited. At its meeting on 3 April 2007, the Council of Lloyd's approved the granting of a New Central Fund undertaking to meet the company's insurance liabilities up to an amount of £65 million prior to 1 April 2008. At 31 December 2006 the amount drawn down from the New Central Fund amounted to £162.8 million. Any future earnings of Kite Dedicated Limited would be applied to repaying its obligations to the New Central Fund.

PRINCIPAL RISKS AND UNCERTAINTIES

As referred to above, the company participates as the sole capital provider for syndicate 102 for the 2001, 2002 and 2003 years of account. These years of account are running off and the company's Funds at Lloyd's are exhausted. The company has a deficiency of net assets and is reliant on its liabilities being met by the Lloyd's New Central Fund to remain solvent. It has no additional risks and uncertainties. Managing the risks and uncertainties of the syndicate in which the company participates is the responsibility of the syndicate's managing agent.

DIRECTORS

R J Murphy and G Nash served as directors throughout the year.

DIRECTORS' INTERESTS

No director had any interest in the share capital of the company.

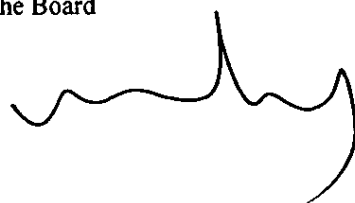
DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a director of the company at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with this report of which the auditor is unaware. Having made enquiries of fellow directors of the company and the company's auditor each director has taken all the steps which he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITORS

Ernst & Young LLP will be re-appointed as the Company's auditor in accordance with the elective resolution passed by the Company under section 385 Companies Act 1985.

By order of the Board



R J Murphy
Director
28 June 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

INDEPENDENT AUDITORS' REPORT

To the members of Kite Dedicated Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 18. These financial statements have been prepared under 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 auditors' 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 directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT

To the members of Kite Dedicated Limited (Continued)

Emphasis of Matter – Cost of closure of the Syndicate's open years of account, losses arising from the Contingent Cost Insurance business and going concern

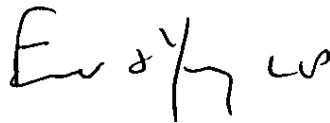
In forming our opinion on the financial statements, which is not qualified, we have considered the following

The adequacy of disclosures made in the financial statements concerning

- the cost of closure of the Syndicate's open years of account As disclosed in note 18 material uncertainty exists regarding the cost of closure of the syndicate in which the company participates by a reinsurance to close to a third party, and
- losses arising from the Contingent Cost Insurance business As disclosed in note 17 of the financial statements material uncertainty exists as to the cost to the company of this issue

The ultimate outcome of these matters cannot presently be determined and consequently material adjustments to the Company's technical reserves may be required

The adequacy of disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern The Company has net liabilities of £323 million and has received monies from the New Central Fund at Lloyd's to meet their insurance liabilities Lloyd's is entitled to demand these monies be repaid These conditions, along with the other matters explained in notes 17 and 18 to the financial statements, indicate the existence of significant uncertainties which may cast material doubt on the company's ability to continue as a going concern The financial statements do not include the adjustments that would arise if the Company was unable to continue as a going concern



Ernst & Young LLP
Registered auditor
London
31 October 2007

PROFIT AND LOSS ACCOUNT **for the year ended 31 December 2006**

	<i>Notes</i>	2006 £'000	2005 £'000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Earned premiums net of reinsurance			
Gross premiums written		(10,090)	(5,416)
Outward reinsurance premiums		<u>352</u>	<u>261</u>
Net earned premiums		(9,738)	(5,155)
Allocated investment income transferred from the non technical account	3	<u>3,460</u>	<u>3,905</u>
Total technical income		<u>(6,278)</u>	<u>(1,250)</u>
Claims incurred net of reinsurance			
Claims paid			
- Gross amount		(141,677)	(88,236)
- Reinsurer's share		<u>19,446</u>	<u>29,250</u>
		(122,231)	(58,986)
Change in provision for claims			
- Gross amount		155,826	66,186
- Reinsurer's share		<u>(16,162)</u>	<u>(40,542)</u>
		139,664	25,644
Net claims incurred	4	<u>17,433</u>	<u>(33,342)</u>
		11,155	(34,592)
Net operating expenses	5	<u>(6,212)</u>	<u>(10,615)</u>
Balance on technical account – general business		<u>4,943</u>	<u>(45,207)</u>

All operations are discontinued

The notes on pages 11 to 20 form part of these accounts and include details of the basis of preparation in note 1

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2006

	<i>Notes</i>	2006 £'000	2005 £'000
NON TECHNICAL ACCOUNT			
Balance on technical account - general business		4,943	(45,207)
Investment income	3	3,460	3,905
Allocated investment income transferred to the technical account	3	<u>(3,460)</u>	<u>(3,905)</u>
Profit/(loss) on ordinary activities before taxation		4,943	(45,207)
Taxation on loss on ordinary activities	7	<u>-</u>	<u>-</u>
Profit/(loss) for the financial year		4,943	(45,207)
Retained loss brought forward		<u>(328,392)</u>	<u>(283,185)</u>
Retained loss carried forward		<u>(323,449)</u>	<u>(328,392)</u>

All operations are discontinued

There are no recognised gains or losses other than the result for the year

The notes on pages 11 to 20 form part of the financial statements and include details of the basis of preparation in Note 1

BALANCE SHEET
at 31 December 2006

	<i>Notes</i>	2006 £'000	2005 £'000
ASSETS			
Investments			
Other financial investments	8	52,647	110,174
Reinsurers' share of technical provisions			
Claims outstanding		49,503	70,643
Debtors			
Debtors from direct reinsurance operations			
Due from intermediaries		17,642	11,648
Debtors arising out of reinsurance operations		25,803	37,423
Other debtors	9	3,933	4,335
		<u>47,378</u>	<u>53,406</u>
Other Assets			
Cash at bank and in hand		13,085	17,156
Other		-	499
		<u>13,085</u>	<u>17,655</u>
Prepayments and accrued income			
Other prepayments and accrued income	10	309	893
TOTAL ASSETS		<u>162,922</u>	<u>252,771</u>

The notes on pages 11 to 20 form part of the financial statements and include details of the basis of preparation in Note 1

BALANCE SHEET

at 31 December 2006

	<i>Notes</i>	<i>2006 £'000</i>	<i>2005 £'000</i>
LIABILITIES			
Capital and Reserves			
Share capital	11	-	-
Profit and loss account		<u>(323,449)</u>	<u>(328,392)</u>
Shareholders' funds attributable to equity interest	12	(323,449)	(328,392)
Technical provision			
Claims outstanding		226,656	412,017
Creditors			
Creditors arising out of direct insurance operations	13	11,364	8,618
Creditors arising out of reinsurance operations		10,296	7,546
Other		<u>236,440</u>	<u>149,634</u>
		258,100	165,798
Accruals and deferred income	14	<u>1,615</u>	<u>3,348</u>
TOTAL LIABILITIES		<u>162,922</u>	<u>252,771</u>

R J Murphy
Director

28 June 2007

The notes on pages 11 to 20 form part of the financial statements and include details of the basis of preparation in Note 1.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

	<i>Notes</i>	<i>2006 £'000</i>	<i>2005 £'000</i>
Net cash movement from operating activities	15(a)	<u>(50,443)</u>	<u>26,603</u>
Cash flows were invested as follows:-			
Increase/(Decrease) in cash holdings	15(c)	(2,324)	6,109
Net Portfolio investments			
Other financial investments	15(c)	(48,119)	20,850
Deposit with ceding undertaking	15(c)	<u>-</u>	<u>(356)</u>
Net Investment of Cash Flow		<u>(50,443)</u>	<u>26,603</u>

The notes on pages 11 to 20 form part of the financial statements and include details of the basis of preparation in Note 1

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2006

1. ACCOUNTING POLICIES

Basis of preparation

The Directors have prepared the financial statements on the going concern basis as they are satisfied that the company will continue to be able to meet its debts as they fall due. At its meeting on 3 April 2007, the Council of Lloyd's approved the granting of a New Central Fund undertaking to meet the company's insurance liabilities up to an amount of £65 million prior to 1 April 2008. These amounts are based on the current estimates of the cash calls which will be made by the managing agent of the syndicate on which the company participates in this period.

Pursuant to paragraph 11 of the New Central Fund Byelaw, Lloyd's are entitled to demand from the company an amount equal to the payments by the New Central Fund under this agreement.

In the event that Lloyd's exercise their entitlement to demand from the company an amount equal to any payments made by the New Central Fund, the company will not be a going concern. Although the directors consider it unlikely that Lloyd's will take this action, there is therefore a fundamental uncertainty as to whether the company will continue to be a going concern. The accounts do not include any adjustment that may be required should the going concern basis cease to be appropriate.

Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards and have been prepared in accordance with Section 255A and Schedule 9A and other requirements of the Companies Act 1985, and with the Statement of Recommended Practice for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005 (as amended in December 2006), except that exchange differences are dealt with in the technical account as there are no non-technical items.

The principal accounting policies adopted are described below.

a) Basis of Accounting for underwriting business

The Company underwrote as a corporate member of Lloyd's on Syndicate 102 and accounts on an annual accounting basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance.

b) Syndicate Participations

i) Premiums Written

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

ii) Reinsurance Premium Ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

iii) Claims Provisions and Related Recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

NOTES TO THE FINANCIAL STATEMENTS (continued)

at 31 December 2006

1. ACCOUNTING POLICIES (continued)

b) Syndicate Participations (continued)

iv Claims Provisions and Related Recoveries (continued)

These methods generally involved projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience of the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

c) Exchange Rates

The syndicate in which the company participates maintain accounts in Sterling, US Dollars, Canadian Dollars and Euros. Assets and liabilities in these currencies are translated to sterling at the rates of exchange ruling at the balance sheet date. Technical account items in these currencies are translated to sterling at average rates of exchange. The syndicates' transactions in other currencies are expressed in sterling at the rates ruling at the transaction dates. All exchange differences are dealt with through the profit and loss account.

d) Investment Income

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years of account proportionately to the funds constituted by the year of account. Investment income and all investment gains and losses (realised and unrealised) relating to syndicate investments and cash are included in the non-technical account and transferred to the technical account.

e) Operating Expenses

Operating expenses include the Company's share of syndicate operating expenses. The Company's underwriting expenses, which include items such as Lloyd's subscriptions and Central Fund contributions, together with fees and commissions payable to managing agents, are charged to the technical account.

NOTES TO THE FINANCIAL STATEMENTS (continued)

at 31 December 2006

1. ACCOUNTING POLICIES (continued)

f) Deferred Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transaction or events have occurred at that date that will result in an obligation to pay more or to pay less or to receive more tax with the following exceptions

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable,
- deferred tax assets are recognised only to the extent that the Directors consider that is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

g) CCI Business Disclosure

During 1999-2003 the Syndicate underwrote policies which insured viatical companies mostly domiciled in the United States. For a lump sum viatical companies acquire the rights of individual policyholders to death benefits under life policies entered into by the policyholder with life Insurers. The Syndicate insured the viatical companies against the risks that the individual policyholder would survive beyond a pre-determined date.

Under these policies, in the event of a policyholder surviving beyond the agreed date, the Syndicate is required to pay to the viatical company an amount equivalent to the death benefit that the viatical company would otherwise have received. Such payments are accounted for as paid claims in these accounts.

In the case of each claim, the Syndicate may take an assignment of the right to the death benefit under the underlying Life policy, pay the necessary premiums, and receive the death benefit when the policyholder dies. These death benefit recoveries are accounted for as claims recoveries and the premiums to be paid are accounted for as claims recovery expenses.

Provision is made within outstanding claims for the anticipated claims payable to the viatical companies in respect of all policyholders expected to survive beyond the specified date(s). These outstanding claims are stated net of anticipated claims recoveries and claims recovery expenses. In last year's financial statements these balances were presented gross. Due to the considerable uncertainties disclosed in note 17 in these financial statements the company had adopted a net presentation approach in line with the financial statements presented by the syndicate. The comparative balances as at the previous year end have also been presented net in these financial statements. This change in presentation has no effect on the result for the year or the previous year.

NOTES TO THE FINANCIAL STATEMENTS (continued) at 31 December 2006

2. SEGMENTAL INFORMATION

2006	Marine Aviation & Transport £'000	Third Party Liability £'000	Fire & Other Damage to Property £'000	Other Direct £'000	Reinsurance accepted £'000	Total £'000
Gross premiums written	(1,103)	(733)	(438)	(9,049)	1,233	(10,090)
Gross premiums earned	(1,103)	(733)	(438)	(9,049)	1,233	(10,090)
Gross claims incurred	(3,080)	3,761	(635)	15,101	(998)	14,149
Gross operating expenses	(2,491)	(980)	(79)	(2,834)	172	(6,212)
Gross technical result	(6,674)	2,048	(1,152)	3,218	407	(2,153)
Reinsurance balance	(4,796)	(1,153)	323	10,548	(1,286)	3,636
	(11,470)	895	(829)	13,766	(879)	1,483
Allocated investment return						3,460
Balance on technical account						4,943

2005	Marine Aviation & Transport £'000	Third Party Liability £'000	Fire & Other Damage to Property £'000	Other Direct £'000	Reinsurance accepted £'000	Total £'000
Gross premiums written	(2,448)	(939)	(2,413)	801	(417)	(5,416)
Gross premiums earned	(2,448)	(939)	(2,413)	801	(417)	(5,416)
Gross claims incurred	6,468	(2,705)	4,955	(31,787)	1,019	(22,050)
Gross operating expenses	(310)	(925)	(37)	(7,429)	(1,914)	(10,615)
Gross technical result	3,710	(4,569)	2,505	(38,415)	(1,312)	(39,081)
Reinsurance balance	5,711	3,998	(3,336)	(5,276)	(12,128)	(11,031)
	9,421	(571)	(831)	(43,691)	(13,440)	(49,112)
Allocated investment return						3,905
Balance on technical account						(45,207)

NOTES TO THE FINANCIAL STATEMENTS (continued)

at 31 December 2006

3. INVESTMENT INCOME

	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
Investment return	3,460	3,905
Allocated to technical account	<u>(3,460)</u>	<u>(3,905)</u>
	<u>-</u>	<u>-</u>

4. PRIOR YEARS' CLAIMS PROVISIONS

The provisions for claims included in the balance sheet at the end of the last year when compared with net payments and provisions at the end of the year show an over/(under) provision as follows

	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
Discontinued operations	<u>17,433</u>	<u>(33,342)</u>

5. OPERATING EXPENSES

	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
Acquisition costs	328	(865)
Administrative expenses	361	587
Foreign exchange adjustment	<u>5,523</u>	<u>10,893</u>
	<u>6,212</u>	<u>10,615</u>

The audit fee of £9,000 (2005 - £9,000) will be met by the company's former ultimate holding company

6. DIRECTORS' EMOLUMENTS

There were no directors' emoluments in the year (2005 - £nil)

NOTES TO THE FINANCIAL STATEMENTS (continued)

at 31 December 2006

7. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no charge for taxation for the year (2005 - £nil)

Factors affecting the tax charge for the year

	2006 £'000	2005 £'000
Profit/(loss) before taxation	4,943	(45,207)
Profit/(loss) before taxation multiplied by the standard rate of Corporation tax in the UK of 30%	1,483	(13,562)
Utilisation of losses from previous years	(1,483)	-
Timing difference in respect of increase in underwriting losses	-	13,562
Current tax for the year	-	-

Factors that may affect future tax charges

The company has an un-provided deferred tax asset as at 31 December 2006 of £90 million in respect of tax losses carried forward. The asset has not been recognised as the directors are of the opinion that there is insufficient evidence that the asset can be utilised in future periods.

8. INVESTMENTS

	2006 £'000	2005 £'000
Listed securities		
Shares and other variable yield securities	24,439	59,759
Debt securities and other fixed income securities	28,208	50,415
Market value	52,647	110,174
Cost	52,547	108,647

9. OTHER DEBTORS

	2006 £'000	2005 £'000
Syndicate debtors due within one year	198	-
Syndicate debtors due after one year	3,735	4,335
	3,933	4,335

The subrogation rights arise as a result of claims paid under Contingent Cost Insurance which is more fully described in note 17.

NOTES TO THE FINANCIAL STATEMENTS (continued) at 31 December 2006

10. PREPAYMENTS AND ACCRUED INCOME

	2006 £'000	2005 £'000
Syndicate accrued income	<u>309</u>	<u>893</u>

11. SHARE CAPITAL

	Authorised 2006 No.	Allotted, called up, fully paid 2006 £	Authorised 2005 No.	Allotted, called up, fully paid 2005 £
Ordinary shares of 0.1 pence each	1,000,000	1	-	-
Ordinary shares of £1 each	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>1</u>

12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share Capital £	Profit and Loss Account £'000	Total £'000
At 1 January 2005	1	(283,185)	(28,385)
Loss for the year	<u>-</u>	<u>(45,207)</u>	<u>(45,207)</u>
At 31 December 2005	1	(328,392)	(328,392)
Profit for the year	<u>-</u>	<u>4,943</u>	<u>4,943</u>
At 31 December 2006	<u>1</u>	<u>(323,449)</u>	<u>(323,449)</u>

13. OTHER CREDITORS

	2006 £'000	2005 £'000
Other creditors falling due within one year		
Amounts owed to the Corporation of Lloyd's	162,832	75,740
Amounts owed to former group companies	71,781	71,780
Syndicate creditors	21,660	16,164
Other	<u>1,827</u>	<u>2,114</u>
	<u>258,100</u>	<u>165,798</u>

The amount owed to the Corporation of Lloyd's represents the amounts drawn down from the New Central Fund to pay the company's underwriting losses in accordance with the undertakings of the Council of Lloyd's referred to in Note 1 above

NOTES TO THE FINANCIAL STATEMENTS (continued) at 31 December 2006

14. ACCRUALS & DEFERRED INCOME

	2006 £'000	2005 £'000
Syndicate	<u>1,615</u>	<u>3,348</u>

15. STATEMENT OF CASH FLOWS

a) Reconciliation of operating profits to net cash in flow from operating activities

	2006 £'000	2005 £'000
Profit/(loss) before tax or ordinary activities	4,943	(45,207)
Realised and unrealised changes in market value and currencies	11,155	(3,985)
Change in technical provisions	(164,221)	932
Movement in debtors and creditors	<u>97,680</u>	<u>74,863</u>
	<u>(50,443)</u>	<u>26,603</u>

b) Movement in opening and closing portfolio investments net of financing

	2006 £'000	2005 £'000
Net cash (outflow)/inflow for year	(2,324)	6,109
Cash flow – portfolio investments	<u>(48,113)</u>	<u>20,494</u>
Movement arising from cash flows	(50,443)	26,603
Changes in market value and currencies	<u>(11,155)</u>	<u>3,985</u>
	(61,598)	30,588
Portfolio at 1 January	<u>127,330</u>	<u>96,742</u>
Portfolio at 31 December	<u>65,732</u>	<u>127,330</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

at 31 December 2006

15. STATEMENT OF CASH FLOWS (continued)

c) Movement in cash and portfolio investments

	<i>At 1 January 2006 £'000</i>	<i>Cash Flow £'000</i>	<i>Changes to market value & currencies £'000</i>	<i>At 31 December 2006 £'000</i>
Cash at bank and in hand	17,156	(2,324)	(1,747)	13,085
Portfolio investments				
Shares and other variable yield securities and units in unit trusts	59,759	(31,958)	(3,362)	24,439
Debt securities and other fixed income securities	<u>50,415</u>	<u>(16,161)</u>	<u>(6,046)</u>	<u>28,208</u>
	<u>127,330</u>	<u>(50,443)</u>	<u>(11,155)</u>	<u>65,732</u>

16. PARENT UNDERTAKING AND CONTROLLING PARTY

In February 2005 GoshawK Capital Limited sold its interest in the company to a third party consortium. No member of the consortium owns a controlling interest in the company.

17. CONTINGENT COST INSURANCE ("CCI")

The claims provision includes amounts in respect of potential claims relating to CCI. This class of business involves the insurance of viatical business in the USA whereby a viatical company pays a lump sum to an individual in return for the assignment of the rights and obligations of a life insurance policy. For a premium, the syndicate in which Kite participates has agreed to pay the viatical company if an individual, or a group of individuals, on the viatical company's books live longer than a specified date, in addition, the syndicate in which Kite participates would take on the liability for the related premiums on the life insurance policy underpinning the viatical business and would receive the maturity value on the individual's death.

These claims have the potential to settle over many years and there is considerable uncertainty as to the amount and timing of the potential settlements. The quantum and timing of potential settlements are dependent on a number of variables which include:

- The mortality experience of the individuals lives which underpin this insurance
- The availability of internal funds available to finance the advancing of monies to the insured viatical and relevant life assurance premiums, pending collection by the syndicate in which Kite participates from the related life assurance policies
- The maturity value of the underlying life assurance policies

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Whilst the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Credit has also been taken for savings which are expected as a result of policy defences which are likely to be available to the syndicate. During the year there has been considerable activity and a number of disputes are being litigated and/or arbitrated with life settlement companies and other parties involved in the production of this business. At the same time a number of policy buy-backs and commutations have been negotiated. The syndicate in which Kite participates will meet valid claims but continues to take a robust view in relation to claims where policy terms and conditions have not been adhered to.

18. ULTIMATE COST OF CLOSURE OF SYNDICATE

The Syndicate in which the company participates ceased underwriting at the end of the 2003 underwriting year. As a result the 2001, 2002 and 2003 underwriting years remain open. The risk premium element of the ultimate cost of closure by reinsurance to close to a third party is uncertain and may give rise to a material adjustment to the profit & loss account in future accounting periods.