4011385

Kite Dedicated Limited

(formerly GoshawK Dedicated (No. 2) Limited)

Report and Financial Statements
31 December 2004

A13 *AD5AC7XI*
COMPANIES HOUSE 0679
18/08/05

Registered No. 4011388

DIRECTORS

R J Murphy
G Nash

SECRETARY

K T Fox

AUDITORS

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

BANKERS

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EH1 1YZ

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REGISTERED OFFICE

Alexander Forbes House
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DIRECTORS' REPORT

The Directors present the report and financial statements for the year ended 31 December 2004.

CHANGE OF NAME

On 23 February 2005 the company changed its name to Kite Dedicated Limited.

RESULTS AND DIVIDENDS

The results of the year under review show a loss of £128,925,000 (2003 loss - £151,625,000) before taxation. The tax credit was £2,091,000 (2003 credit - £458,000). The Directors recommend that no dividend should be paid (2003 - £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 2004.

The net assets of Kite Dedicated Limited show a deficit of £281.1 million as at 31 December 2004, 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 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 6 April 2005, 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 £110million prior to 1 April 2006. Any future earnings of Kite Dedicated Limited would be applied to repaying its obligations to the New Central Fund.

On 9 February 2005 GoshawK Insurance Holdings plc sold the company.

DIRECTORS

A.J. Gammell resigned as a director of the company on 24 February 2004. Proofsecond Ltd, a wholly owned subsidiary undertaking of GoshawK Insurance Holdings plc, was appointed a director on 1 April 2004. On 8 February 2005, RJ Murphy and G Nash were appointed as directors. AS Fox and Proofsecond Ltd resigned as directors on 8 February 2005.

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS

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

A.S. Fox's interest in the share capital of Kite Dedicated (No.2) Limited's ultimate parent undertaking, GoshawK Insurance Holdings plc, is as follows:

	At 31 December 2004 Ordinary Shares of 5p	At 1 January 2004 Ordinary Shares of 5p
AS Fox	64,200	239,485

INTEREST IN OPTIONS

GoshawK Insurance Holdings plc has an Unapproved Executive Share Option scheme, established in 1996, and an Approved Share Option Plan established in 2000, whereby Group Directors and designated employees are able to subscribe for ordinary shares in that company.

The interests of the Directors are as follows:

UNAPPROVED SCHEME

	Exercisable	Exercise Price p	At 1 January 2004	Granted during the year	At 31 December 2004
A.S. Fox	Jun 2003 to Jun 2007	55.0	157,500	-	157,500
	Nov 2003 to Nov 2007	90.5	5,000	-	5,000
	Nov 2004 to Nov 2008	98.0	30,000	-	3,000
	Nov 2005 to Nov 2009	84.0	40,000	-	40,000
			232,500		232,500

APPROVED SCHEME

	Exercisable	Exercise Price p	At 1 January 2004	Granted during the year	At 31 December 2004
A.S. Fox	Nov 2003 to Nov 2010	90.5	30,000	-	30,000

SHARE INCENTIVE PLAN

A.S. Fox was a member of the GoshawK Insurance Holdings plc Share Incentive plan at 31 December and Trustees of the plan held 13,222 shares on his behalf at 31 December 2004 (2003 – 9,220).

DIRECTORS' REPORT (continued)

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

6 July 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the Directors 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 period. In preparing those financial statements, the Directors are required to :

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention 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 2004 which comprise the Profit and Loss Account, Balance Sheet and Statement of Cash Flows and the related notes 1 to 24. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the company's Directors are responsible for the preparation of the financial statements in accordance with United Kingdom law and 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 Directors' 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 Directors' remuneration and transactions with the company 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 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 uncertainties

In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning the fundamental uncertainties arising from the following:-

Going concern: Considerable uncertainty exists regarding the going concern status of the company. Details of this uncertainty are disclosed in Note 1. Our opinion is not qualified in this respect.

The Cost of Closure of the Syndicate's open years of account: Considerable uncertainty exists regarding the ultimate cost of closure of the syndicate in which the company participates by a reinsurance to close a third party, as disclosed in note 22. Our opinion is not qualified in this respect.

The exposure of the Company to claims and other losses arising from the legal expenses business written through The Accident Group and The Contingent Cost Insurance class of business, as disclosed in notes 19 and 20 of the financial statements: Considerable uncertainty exists as to the ultimate cost of the company of these issues and material adjustments to the company's technical reserves may be required, dependent upon subsequent events and information received. It is not possible to quantify the potential effects of the resolution of these uncertainties. In view of the significance of these uncertainties, we consider they 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 affairs of the company as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

6 July 2005

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Earned premiums net of reinsurance			
Gross premiums written		(37,688)	220,581
Outward reinsurance premiums		(6,680)	49,127
Net premiums written		(31,008)	171,454
Change in gross provision for unearned premiums:			
– Gross amount		68,370	16,267
– Reinsurers' share		(10,314)	(11,618)
Change in the net provision for unearned premiums		58,056	4,649
Net earned premiums		27,048	176,103
Allocated investment income transferred from the non technical account	3	2,753	4,962
Total technical income		29,801	181,065
Claims incurred net of reinsurance			
Claims paid:			
Gross amount		(133,581)	(150,411)
Reinsurers' share		71,664	73,902
		(61,917)	(76,509)
Change in provision for claims:			
Gross amount		(31,585)	(212,200)
Reinsurers' share		(55,253)	26,552
		(86,838)	(185,648)
Net claims incurred		(148,755)	(262,157)
		(118,954)	(81,092)
Net operating expenses	4	(3,091)	(58,738)
Investment expenses and charges		-	(101)
Balance on technical account - general business		**(122,045)**	**(139,931)**

All operations are discontinued.

The notes on pages 13 to 24 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 2004

	Notes	2004 £'000	2003 £'000
NON TECHNICAL ACCOUNT			
Balance on technical account - general business		**(122,045)**	**(139,931)**
Investment income	3	2,790	2,240
Allocated investment income transferred to the technical account	3	(2,753)	(4,962)
Other charges (including amortisation)	5	(6,917)	(8,972)
Operating loss		(128,925)	(151,625)
Comprising:			
Operating loss (based on longer term investment return)		(128,925)	(148,903)
Short term fluctuations in investment return		-	(2,722)
		(128,925)	(151,625)
Loss on ordinary activities before taxation		**(128,925)**	**(151,625)**
Taxation on loss on ordinary activities	8	-	458
Loss for the financial year		**(128,925)**	**(151,167)**
Retained loss brought forward		**(154,260)**	**(3,093)**
Retained loss carried forward		**(283,185)**	**(154,260)**

All operations are discontinued

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

The notes on pages 13 to 24 form part of the financial statements and include details of the basis of preparation in Note 1.

BALANCE SHEET
at 31 December 2004

	Note	2004 £'000	2003 £'000
ASSETS			
Investments			
Other financial investments		87,585	70,370
Deposit with ceding undertaking		342	1,407
	9	87,927	71,777
Reinsurer's share of technical provisions			
Provisions for unearned premiums		-	9,397
Claims outstanding		105,193	166,302
		105,193	175,699
Debtors			
Debtors from direct reinsurance operations:			
Due from intermediaries		17,684	112,893
Debtors arising out of reinsurance operations		65,909	20,831
Other debtors	10	178,381	344,871
		261,974	478,595
Other Assets			
Cash at bank and in hand		8,815	16,447
Other		8,908	7,749
		17,723	24,196
Prepayments and accrued income			
Deferred acquisition costs		-	17,539
Other prepayments and accrued income	11	309	897
		309	18,436
TOTAL ASSETS		**473,126**	**768,703**

The notes on pages 13 to 24 form part of the financial statements and include details of the basis of preparation in Note 1.

BALANCE SHEET
at 31 December 2004

	Note	2004 £'000	2003 £'000
LIABILITIES			
Capital and Reserves			
Share capital	12	-	-
Profit and loss account		(283,185)	(154,260)
Shareholders' funds attributable to equity interest	13	(283,185)	(154,260)
Technical provision			
Provision for unearned premiums		-	92,431
Claims outstanding		623,187	712,643
Unexpired risk reserve		-	37,352
		623,187	842,426
Creditors			
Creditors arising out of direct insurance operations		14,226	40,918
Creditors arising out of reinsurance operations		41,703	11,083
Other	14	76,032	10,283
		131,961	62,284
Accruals and deferred income		1,163	18,253
TOTAL LIABILITIES		**473,126**	**768,703**

R J Murphy
Director

6 July 2005

The notes on pages 13 to 24 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 2004

	Notes	2004 £'000	2003 £'000
Net cash in flow from operating activities	24(a)	11,945	18,829
Cash flows were invested as follows:-			
Increase/(Decrease) in cash holdings	24(c)	(5,753)	6,887
Net Portfolio investments			
Other financial investments	24(c)	18,763	10,698
Deposit with ceding undertaking	24(c)	(1,065)	1,244
Net Investment of Cash Flow		11,945	18,829

The notes on pages 13 to 24 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 2004

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 meets its debts as they fall due. At its meeting on 6 April 2005, 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 £110 million prior to 1 April 2006. This amount is based on the current estimates of the cash calls which will be made by the managing agent of the syndicates on which the company participates in this period.

The financial statements for the previous year were prepared on the break up basis as the company had not obtained the approval of the Council of Lloyd's for a New Central Fund undertaking to meet the company's insurance liabilities. The adoption of the going concern basis in the current year has no effect on the result for the year.

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.

The ultimate parent undertaking, GoshawK Insurance Holdings plc, had given a guarantee under a deed of covenant to Lloyd's in respect of Kite Dedicated Limited. The total amount of the guarantee given by the ultimate parent undertaking was £43,182,985 and Lloyd's had a fixed and floating charge over assets of the parent undertaking to support this covenant. The ultimate parent undertaking had also guaranteed a £20 million letter of credit facility provided by Barclays Bank plc in favour of Lloyd's in respect, *inter alia*, of Kite Dedicated Limited.

On 6 August 2004, following a cash call by Syndicate 102, the Funds at Lloyd's held under a covenant and charge by GoshawK Insurance Holdings plc to support the underwriting of Kite Dedicated Limited were released in their entirety to Lloyd's in settlement of the cash call. In addition the £20 million Letter of Credit Facility was also drawn down by Lloyd's.

Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards and have been prepared in accordance with the 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 November 2003.

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.

b) **Syndicate Participations**

i **Premiums**

Gross premiums written represent premiums on business incepting during the year together with adjustments to premiums written in previous accounting periods and estimates for "pipeline" premiums. Gross premiums written are stated before deduction of commissions but net of taxes, duties levied on premiums and other deductions.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

1. ACCOUNTING POLICIES (continued)

b) Syndicate Participations (continued)

ii Unearned Premiums
The provision for unearned premiums represents that part of gross premiums written and the reinsurers' share that is estimated to be earned after the balance sheet date.

iii Deferred Acquisition Costs
Acquisition costs represent the expenses, both direct and indirect, of acquiring insurance policies written during the financial period. Acquisition costs are deferred and amortised over the period in which the premium is earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

iv Claims

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end.

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The provision is set by the run off manager in conjunction with the company's actuary based on the expectation of the ultimate result using statistical techniques of estimation and is reviewed on a quarterly basis. The reserves are also subject to review by external consulting actuaries.

The actuarial methods used extrapolate the development of premiums, and paid and incurred claims for each year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims experience can be used to project ultimate claims costs and that no changes to past trends, such as public attitudes to claiming or inflation occur. The approach adopted takes into account the nature and materiality of the business and the type of data available. Additional qualitative input, such as allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome taking account of all uncertainties involved.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for reinsurers' share, having regard to collectability based on Standard and Poor's credit ratings of reinsurers.

While the Directors consider that the provisions for claims outstanding are fairly stated on the basis of the information available to them at the date of these financial statements, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the losses forseen. Adjustments to the amounts of the provisions are reflected in the financial statements for the period in which the adjustments are made.

The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

v Unexpired Risk Provisions
A provision for unexpired risks is made when it is anticipated that unearned premiums will be insufficient to meet future claims and claims settlement expenses of business in force at the period end. The provision for unexpired risks is included within technical provisions in the balance sheet.

c) Exchange Rates
The syndicates 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. Previously technical account items were translated at rates of exchange ruling at the balance sheet date. This is a change in accounting policy but it has no effect on the result for the year. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

1. ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

2. SEGMENTAL INFORMATION

2004	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	(7,638)	(3,764)	(6,648)	(17,930)	(1,708)	(37,688)
Gross premiums earned	6,218	3,064	5,412	14,598	1,390	30,682
Gross claims incurred	(35,646)	(7,864)	(14,269)	(84,288)	(23,099)	(165,166)
Gross operating expenses	(626)	(309)	(545)	(1,470)	(141)	(3,091)
Gross technical result	(30,054)	(5,109)	(9,402)	(71,160)	(21,850)	(137,575)
Reinsurance balance	(2,661)	69	(36)	(99)	15,504	(12,777)
	(32,715)	(5,040)	(9,438)	(71,259)	(6,346)	(124,798)
Investment expenses and charges						-
Allocated investment return						2,753
Balance on technical account						(122,045)

2003	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	29,366	33,739	39,855	53,809	(52)	156,717
Gross premiums earned	44,192	31,781	38,419	62,919	13,837	191,148
Gross claims incurred	(30,391)	(41,092)	(20,800)	(134,773)	(30,984)	(258,040)
Gross operating expenses	(14,285)	(10,644)	(12,872)	(20,730)	(4,211)	(62,742)
Gross technical result	(484)	(19,955)	4,747	(92,584)	(21,358)	(129,634)
Reinsurance balance	(12,918)	(10,290)	(6,801)	6,579	8,272	(15,158)
						(144,792)
Investment expenses and charges						(101)
Allocated investment return						4,962
Balance on technical account						139,931

The segmental information for 2003 has not been reclassified to reflect the RITC transactions reflected in the technical account. These transactions in the technical account have the effect of increasing the movement in technical provisions which is balanced by the RITC receivable and as such has no effect on the underlying segmental information. For further information on the quantum of the reinsurance to close premium is detailed in Note 16.

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

3. INVESTMENT INCOME

	2004 £'000	2003 £'000
Total investment return	2,790	2,240
Analysed as:		
Investment return from managed syndicates	2,753	4,962
Transferred to the technical account	2,753	4,962
Net investment return	2,753	4,962
Short term fluctuations in investments	-	(2,722)
Total investment return	2,753	2,240

4. OPERATING EXPENSES

	2004 £'000	2003 £'000
Acquisition costs		
- commission in respect of direct business	(7,130)	31,772
- commission in respect of reinsurance business	-	358
- other	-	4,691
Change in deferred acquisition costs	16,937	5,942
Administrative expenses	2,138	15,201
Foreign exchange adjustment	(8,854)	774
	3,091	58,738

Administrative expenses for 2003 include £14 million of expense provision made in respect of the run off of Syndicate 102. No future investment income has been deducted from this expense provision.

5. OTHER CHARGES (including amortisation)

	2004 £'000	2003 £'000
Salaries and related expenses	-	62
Legal and professional charges	9	8
Amortisation charge (see note 8)	-	8,892
Other	475	10
Foreign exchange	6,433	-
	6,917	8,972

Included within professional fees is Auditors' remuneration in respect of audit services amounting to £9,013 (2003 - £8,977).

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

6. DIRECTORS' EMOLUMENTS

	2004 £	2003 £
Emoluments	-	10,040
Company contributions paid to money purchase pension schemes	-	1,341

7. STAFF COSTS

	2004 £'000	2003 £'000
Wages and salaries (including Directors' emoluments)	-	57
Social security costs	-	7
Pension costs	-	8
Other costs	-	3
	-	75

The average weekly number of employees was made up as follows:

	2004 No	2003 No
Management	-	2
Administration	-	1
	-	3

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

8. TAX ON LOSS ON ORDINARY ACTIVITIES

a) Analysis of credit for the year

	2004 £'000	2003 £'000
UK corporation tax:		
Corporation tax at 30%	-	(1,534)
Prior year over provision in respect of prior years	-	(16)
Total current taxation credit for the year	-	(1,550)
UK deferred tax:		
Origination and reversal of timing differences	-	1,092
Total deferred tax charge for the year	-	1,092
Total tax credit for the year	-	(458)

b) Factors affecting the tax credit for the year

	2004 £'000	2003 £'000
The tax assessment on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2003 : 30%). The differences are reconciled below:		
Loss on ordinary activities	(128,925)	(151,625)
Loss on ordinary activities multiplied by the standard rate of Corporation tax in the UK of 30%	(38,678)	(45,488)
Timing difference in respect of short term fluctuations on investments attributable to syndicates	-	817
Timing difference in respect of increase in underwriting losses	38,678	41,979
Increase in tax losses in the year	-	1,158
Over provision in respect of prior years	-	(16)
Current tax for the period	-	(1,550)

c) Factors that may affect future tax charges

The company has an un-provided deferred tax asset as at 31 December 2004 of £49 million in respect of underwriting losses not yet brought into the charge to corporation tax and £29 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

9. INVESTMENTS

	2004 £'000	2003 £'000
Shares and other variable yield securities	-	4
Debt securities and other fixed income securities	28,537	66,470
Deposits with credit institutions	59,048	3,896
Deposit with ceding undertaking	342	1,407
Market Value	87,927	71,777
Cost	87,623	72,117

10. OTHER DEBTORS

	2004 £'000	2003 £'000
Subrogation rights	177,552	339,162
Other VAT debtors	-	1
Syndicate debtors	829	5,708
	178,381	344,871

The subrogation rights arise as a result of claims paid under Contingent Cost Insurance which is more fully described in noted 19.

11. PREPAYMENTS AND ACCRUED INCOME

	2004 £'000	2003 £'000
Prepayments	-	196
Syndicate accrued income	309	701
	309	897

12. SHARE CAPITAL

	Authorised 2004 No.	Allotted, called up, fully paid 2004 £	Authorised 2003 No.	Allotted, called up, fully paid 2003 £
Ordinary shares of £1 each	1,000	1	1,000	1

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share Capital £	Profit and Loss Account £'000	Total £'000
At 1 January 2003	1	(3,093)	(3,093)
Loss for the year	-	(151,167)	(151,167)
At 31 December 2003	1	(154,260)	(154,260)
Loss for the year	-	(126,834)	(126,834)
At 31 December 2004	1	(281,094)	(281,094)

14. OTHER CREDITORS

	2004 £'000	2003 £'000
Other creditors falling due within one year		
Amounts owed to ultimate parent undertaking	61,100	171
Amounts owed to fellow subsidiary undertakings	10,680	8,433
Syndicate creditors	2,210	1,679
Other	2,042	-
	76,032	10,283

15. ACCRUALS & DEFERRED INCOME

	2004 £'000	2003 £'000
Syndicate	1,163	18,251
Other	-	2
	1,163	18,253

16. REINSURANCE TO CLOSE PREMIUM

Gross written premiums for 2003 include Syndicate 102's 2001 year of account's acceptance of the reinsurance to close premium payable by Syndicate 102's 2000 year of account of £63,864,079.

GoshawK Dedicated Limited's last year of participation on Syndicate 102 was the 2000 year of account, Kite Dedicated Limited underwrote on Syndicate 102 for the 2001, 2002 and 2003 years of account and therefore takes on the liabilities of the 2000 year of account and prior by the acceptance of the reinsurance to close premium of the 2001 year of account.

NOTES TO THE FINANCIAL STATEMENTS (continued)
at 31 December 2004

17. PARENT UNDERTAKING AND CONTROLLING PARTY

At the balance sheet date, Kite Dedicated Limited's immediate parent undertaking was GoshawK Capital Limited (incorporated in the UK) and its ultimate parent undertaking was GoshawK Insurance Holdings plc (incorporated in the UK). No consolidated financial statements are prepared for GoshawK Capital Limited in accordance with section 228 of the Companies Act. Kite Dedicated Limited was included in the GoshawK Insurance Holdings plc financial statements up to 31 October 2003, after which it is no longer consolidated on the basis of 'severe long term restrictions'. Accordingly, in the Directors' opinion, the company has no ultimate controlling party. For further details, refer to the financial statements for GoshawK Insurance Holdings plc, copies of which are available from 52 Jermyn Street, London SW1 6LX. Since the year end the company was sold by GoshawK Capital Limited.

18. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under FRS 8 from disclosing transactions with fellow subsidiary undertakings of the ultimate parent undertaking on the grounds that it is wholly owned.

19. 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, Kite have 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, Kite 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. The ABI SORP requires the outstanding claims to be included within claims outstandings with the net benefit of the maturity value of the life policy less the future premiums on the policy to be included within other debtors.

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 Kite from the related life assurance policies.
- The cost of capital charged on external funding.
- The maturity value of the underlying life assurance policies.

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. Any difference between provisions at the balance sheet date and settlement and provisions in the following year is included in the underwriting result for that year.

20. THE ACCIDENT GROUP ("TAG")

The claims provision includes amounts in respect of potential claims relating to after the event legal expenses insurance written by Syndicate 102 through TAG. The potential settlement amounts are dependent on a number of variables and there is considerable uncertainty as to the amounts of the potential settlements.

The variables, some of which are interdependent, include:

- The outcome of possible contractual disputes between the insured and other parties which will impact the syndicate's obligations under the policies;
- The failure rate of legal cases brought by insureds to claim compensation.
- The cost of individual claims.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2004

21. THE ACCIDENT GROUP ("TAG") (continued)

- The outcome of the expected liquidation of TAG, which may involve disputes between the liquidator and the syndicate in respect of monies owed or owing.

The determination of the impact of the variables could be decided by legal action in the future, the results of which are uncertain. 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. Any difference between provisions at the balance sheet date and settlement and provisions in the following year is included in the underwriting result for that year.

22. 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.

23. PRIOR YEARS' CLAIMS PROVISIONS

Under provisions for claims, in respect of managed syndicates, at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2004 £'000	2003 £'000
Discontinued operations	148,755	184,378

A summary of main factors contributing to the significant deterioration of the prior years' claims reserves is provided in the Directors' Report.

The 2001 year of account was the first year on which Kite Dedicated Limited participated on the managed syndicates.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2004

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

	2004 £'000	2003 £'000
Loss before tax or ordinary activities	(128,925)	(151,625)
Change in technical provisions	30,416	176,190
Movement in debtors and creditors	107,027	(14,628)
Intangible asset written off	-	8,892
	8,518	18,829

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

	2004 £'000	2003 £'000
Net cash (out flow)/in flow for the year	(5,573)	6,887
Cash flow – portfolio investments	17,698	11,942
Total movement in portfolio investments net of financing	8,518	18,829
Portfolio at 1 January	88,224	69,395
Portfolio at 31 December	96,742	88,224

c) Movement in cash and portfolio investments

	At 1 January 2004 £'000	Cash Flow £'000	At 31 December 2004 £'000
Cash at bank and in hand	16,447	(7,632)	8,815
Other financial investments	70,370	17,215	87,585
Deposit with ceding undertaking	1,407	(1,065)	342
	88,224	8,518	96,742