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To all known creditors and members of
Cotesworth Group Limited (in liquidation)

Our ref tar/dc/985

05 April 2007

Dear Sir/Madam

Cotesworth Group Limited (in liquidation) (“CGL”)

1 Introduction

This is the fifth annual report to the creditors and members of CGL. CGL was placed into creditors’ voluntary liquidation on 26 September 2001. The liquidators of CGL are Tom Riddell and John Wardrop, partners of KPMG LLP, UK.

The company is one of a number of companies in the HIH Group of Companies (“HIH Group”) which have been subject to insolvency proceedings in the UK and over which Messrs Riddell, Wardrop and, in some cases Tony McMahon, also a partner of KPMG LLP, are appointed.

2 Brief details of the company

CGL was incorporated in the UK on 10 July 1997 to act as a holding company for the Cotesworth entities. In 1998, the company (along with other companies in the Cotesworth group) was acquired by the HIH Group. The company then continued as a holding company until the failure of the group in September 2001.

The directors of the company who held office at the time of its failure or in the previous two years were as follows:

Directors: NW Britten

 G Davies

 BG Devereese

 HG Simons

D Fodera

PB Thompson (resigned 1/5/00)

RR Williams (resigned 29/3/00)

Company secretary: W Scott

Shareholding: The company was a wholly owned subsidiary of HIH European Holding Company Limited. The ultimate beneficial owner, HIH Insurance Ltd, which was publicly listed in Australia, is now in liquidation.

3 Details of the relationships with HIH and background to the failure

The principal UK operations of the HIH Group comprised HIH Casualty & General Insurance Limited ("HIH C&G"), writing business in the UK through a branch operation, and the Cotesworth Group of Companies, writing business in the UK through membership of Lloyd's syndicates.

The HIH Group acquired the Cotesworth Group in October 1998 to benefit from the global underwriting licences available to Lloyd's syndicates. The acquisition consisted principally of a Lloyd's corporate capital vehicle (Cotesworth Capital Ltd ("CCL")) and an associated managing agent (Cotesworth & Co Limited) which wrote business through five Lloyd's syndicates. CCL held interests in one newly formed syndicate (1688) and majority interests in four others (535, 536, 228 & 1069). Prior to the acquisition, CCL was owned by approximately fourteen individuals.

In order to participate in a syndicate's underwriting, a corporate name must maintain Funds at Lloyd's (FAL) as security. The FAL required to be maintained by Cotesworth at Lloyd's varied but at December 2000 the FAL requirement stood at £110 million. This FAL security took the form of letters of credit collateralised by assets from HIH Group companies in Australia.

With the insolvency of HIH Group companies in March 2001 the Cotesworth FAL security of £110m with Lloyd's remained in place. However, it was then clear that no further HIH support would be available, and that the Cotesworth Group would need to secure alternative sources of backing if it wanted to expand its business, or if it incurred losses. The Cotesworth syndicates had in fact already incurred significant losses, and accordingly CCL needed further funding for its 2002 underwriting at Lloyd's if the syndicates were to continue underwriting. Cotesworth & Co engaged Noble & Co to seek a buyer and worked closely with the joint provisional liquidators of HIH C&G and Lloyd's to determine whether a sale of the group could be achieved.

During the following six months the Cotesworth syndicate losses continued to escalate, and no buyer was found. Further major losses included exposures to insolvent debtors and the Petrobras

platform loss. Accordingly, the Cotesworth syndicates suspended underwriting on 17 August 2001 and ceased underwriting on 3 September 2001.

On 26 September 2001, the Deputy Chairman of Lloyd’s exercised power to replace Cotesworth & Co as the managing agent of the Cotesworth syndicates. Lloyd’s By-laws do not allow an insolvent company to act as a managing agency. Capita Syndicate Management Limited (“Capita”) was appointed as the substitute managing agent for the syndicates. Companies in the Cotesworth Group had no future prospects and directors of each of the companies resolved to place them into insolvency proceedings.

CGL was placed into creditors’ voluntary liquidation on 26 September 2001.

4 Assets

Asset	Statement of Affairs	Updated Trial Balance as at 25 September 2006
	£	£
Cash	80	-
VAT refund	639	-
Inter Company debtors	2,296,528	-

CGL is owed £2,296,528 by Cotesworth Holdings Limited (“CHL”). CHL is in creditors’ voluntary liquidation and does not have sufficient assets to pay a dividend at this time. It is likely that CGL will receive a dividend from CHL, which will in turn receive a distribution from HIH C&G in the future. This potential asset is likely to be assigned to the liquidators in part settlement of their costs.

The potential VAT refund is not recoverable. The statement of affairs omits the company’s investment in subsidiary companies. However, the liquidators consider no realisations will be made as the subsidiaries are insolvent.

5 Liabilities

5.1 Preferential Creditors

No preferential creditors have been identified.

5.2 Non-preferential creditors

Liability	Statement of Affairs	Updated Trial Balance as at 25 September 2006 £
Inter-company creditors	359,715	93,539
Sundry creditors	14,014	-

CGL owes Cotesworth & Co Limited ("Cotesworth & Co") £93,539. Cotesworth & Co was the service company for the Cotesworth group of companies and this balance relates to a re-charge of expenses.

The Statement of Affairs listed CGL as owing Arthur Anderson £14,014 for external audit services provided to the Company. The liquidators have formally rejected this claim.

6 Dividend prospects

It is not anticipated that there will be sufficient assets to make a distribution to unsecured creditors.

7 Other Issues

7.1 Taxation

7.1.1 *Corporation Tax*

All returns have been submitted up to 26 September 2005. To date no enquiries have been raised into these returns by the Inland Revenue.

7.1.2 *VAT*

The HIH VAT group has 10 members of which HIH C&G is the representative member. As such, CGL will continue to be jointly and severally liable for any unpaid VAT debts that arise from other group members' activities. No liability is expected for CGL.

8 Receipts and Payments

A summary of the liquidators’ receipts and payments from the commencement of the liquidation to 25 September 2006 is set out below.

Cotesworth Group Limited (in liquidation)	
Receipts and Payments for the period 26 September 2001 to 25 September 2006	
<u>Receipts</u>	
Proceeds from company bank accounts at 26 September 2001	80
Other receipts	206
Total receipts	286
<u>Payments</u>	
Secretary of State fee	5
Liquidators’ expenses	239
Other expenses	42
	286
Fund held at 25 September 2006	0

9 Liquidators’ remuneration

The liquidators’ remuneration in a creditors’ voluntary liquidation is normally fixed by the Liquidation Committee (if one exists) or the creditors, if no Committee exists. At the Section 98 meeting held on 11 October 2001 it was resolved that no Liquidation Committee be established. A circular prepared by The Association of Business Recovery Professionals (R3) explaining remuneration in insolvencies is attached for creditor information.

At the annual creditors’ meeting held on 10 December 2002 a resolution was passed to fix the liquidators remuneration by reference to the time properly given by the liquidators and their staff in attending to matters arising in the insolvency, at the same rates as are approved from time to time by the Court for the principal insolvencies in the HIH group in the UK.

For the twelve months ended 25 September 2006 £6,207.40 excluding VAT has been charged by the joint liquidators and their staff representing 32.3 hours of their time and disbursements.

A detailed breakdown of the time costs and disbursements incurred by the liquidators and their staff is attached. The breakdown details changes to the hourly staff rates which occurred during the year.

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KPMG LLP
Cotesworth Group Limited (in liquidation) ("CGL")
05 April 2007

As CGL has no funds available, no fees have been drawn to date.

10 Meeting of Creditors

The fifth annual meetings of creditors and members will be held in London on 04 May 2007 at 10.30am and 10:45am respectively at KPMG LLP, 1-2 Dorset Rise, London EC4Y 8EN. Creditors and members will have the opportunity to question the liquidators over the matters in this report. In order that we may anticipate numbers attending, please contact Michael Maccallum by telephone +44 (0) 20 7694 3459 or by email at Michael.Maccallum@kpmg.co.uk if you intend to attend either meeting. Notice of each meeting is enclosed with this letter together with a proxy form.

Yours faithfully

For CGL

TA Riddell

Joint Liquidator

Enclosures: A Creditors guide to liquidators' fees
Schedule of liquidators' fees and expenses
Notice of meeting
Proxy form
Proof of debt form