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To all known creditors and members of HIH
European Holding Company Limited (in
liquidation)

Our ref tar/ek/985

05 April 2007

Dear Sir/Madam

HIH European Holding Company Limited (in liquidation) (“HIH EHC”)

1 Introduction

This is the fifth annual report to the creditors and members of HIH EHC. HIH EHC was placed into creditors’ voluntary liquidation on 24 October 2001. The liquidators of HIH EHC 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 in KPMG LLP, are appointed.

2 Brief details of the company

HIH EHC was incorporated in the UK on 26 November 1992. It acted as a holding company and did not trade. HIH EHC has a number of subsidiary undertakings.

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
 D Fodera
 MW Payne
 PB Thompson
 RR Williams
 HG Simons

Company secretary: W Scott

Shareholding: 99.8% of the shares in the company were owned by HIH Overseas Holdings Ltd. In addition the company had a number of private individual shareholders, a number of whom were also directors. 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.

HIH EHC was used as a non trading holding company which owned service companies to support the branch business of HIH C&G, and held the shareholdings of those HIH companies which were incorporated in the UK, of which the Cotesworth Group was by far the most significant.

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 14 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 CCL 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 Lloyd’s 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. Directors of Cotesworth & Co Ltd and CCL then applied to the Court for the appointment of provisional liquidators on 28 September 2001.

HIH EHC was then placed into creditors voluntary liquidation on 24 October 2001.

4 Assets and Liabilities

Asset	Note	Statement of Affairs £	Updated Trial Balance as at 23 October 2006 £
Intercompany debtors	4.1	46,608,565	40,662,648
Shares and Investments	4.2	21,704,494	-
Corporation tax		152,115	-
Sundry debtors	4.3	22,013	-
Loan C1 shareholders	4.4	2,156,272	2,156,272
Cash	--	2,000	245,870
Dividends receivable		277,804	-

4.1 Inter-company debtors

The largest inter-company debtor is £40,661,000 owing by HIH US Inc. The liquidators do not consider this balance to be recoverable.

4.2 Shares and Investments

HIH EHC as the holding company for the group in the UK had shares in a number of subsidiaries as follows:

Company	Investment £	Status
HIH (UK) Limited	250,000	This company is insolvent and in compulsory liquidation. No recovery will be made.
HIH Indemnity International Limited	4,900,000	This company was sold to Churchill in June 2002 for £1.15m.
Cotesworth Group Limited	16,551,000	The Cotesworth Group of companies are insolvent and no recovery will be made.
HIH Systems International Limited	2	This company is in members voluntary liquidation (see below).
Genesis Underwriting Agency Limited	3,000	No cash realisation expected.

4.2.1 HIH Systems International Limited

The liquidation will be completed once the liquidators have received tax clearance from the Inland Revenue.

4.3 Sundry debtors

This balance is not considered recoverable due to inadequate records to substantiate the debt.

4.4 Loan C1 Shareholders

The liquidators have received Counsel's opinion that these loans are not likely to be recoverable by HIH EHC.

5 Liabilities

5.1 Preferential Creditors

No preferential creditors have been identified.

5.2 Non-preferential creditors

Liability	Note	Statement of Affairs £	Updated Trial Balance as at 23 October 2006 £
Inter-company creditors	5.3	57,981,742	52,094,343
Sundry creditors	--	98,550	56,307

5.3 Inter-company creditors

The principal inter-company creditor of HIH EHC is an amount of £44,075,000 claimed by HIH New Zealand. This debt arose as a result of a round robin of transactions, all completed in Sydney, with related companies. The transactions resulted in HIH EHC assuming these very significant liabilities, mostly matched by corresponding but worthless intercompany loan assets. The liquidators regard the transactions as clearly not having been in the interests of the Company. The transactions have been reported but no further action will be taken by the liquidators.

6 Dividend prospects

The Liquidators expect any final dividend to be minimal.

7 Investigations

The liquidators filed claims against various parties in relation to the acquisition of the Cotesworth Group by HIH, related to litigation by other group companies over certain financial reinsurance contracts which had the effect of distorting the reported financial position of companies in the group.

During 2006 all of these actions were discontinued following decisions against funding by any parties which would have been significant beneficiaries of the litigation. Discontinuation agreements have been concluded with all parties.

However since then a group of Names at Lloyd’s, on the Cotesworth syndicates but otherwise unrelated to the HIH group, have been investigating action to recover compensation from the Lloyd’s Members’ Compensation Scheme, which would first require them to take action against one of the Cotesworth companies or its directors. The liquidators will accordingly not complete any of the Cotesworth group liquidations until their threat of potential involvement is resolved.

8 Other Issues

8.1 Taxation

8.1.1 Corporation Tax

All tax returns have been submitted up to 23 October 2005. To date no enquiries have been raised by the Inland Revenue.

8.1.2 VAT

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

9 Receipts and Payments

A summary of the liquidators' receipts and payments from the commencement of the liquidation to 23 October 2006 is set out below.

HIH European Holding Company Limited (in liquidation)		£
Receipts and Payments for the period 24 October 2001 to 23 October 2005		
<u>Receipts</u>		
Proceeds from company bank accounts at 24 October 2001	1,630	
Sale of shares in subsidiaries	1,150,110	
Investment income	122,402	
Dividends receivable	90,000	
Tax refunds	170,331	
Total receipts	1,534,473	
<u>Payments</u>		
Secretary of State fee	12,500	
Liquidators fees	151,351	
Liquidators expenses	2,096	
Legal fees	869,005	
Other professional and agents fees	34,689	
VAT	138,980	
Insurance Premium tax	43,320	
Bank charges	256	
Corporation tax	25,440	
Actuarial fees	10,965	
Total	1,288,602	
Funds held at 23 October 2006	245,871	

10 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 24 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 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.

During the year to 23 October 2006 £4,675.3 excluding VAT has been charged by the joint liquidators and their staff representing 23.7 hours of their time. A detailed breakdown is attached.

11 Conclusion of the liquidation

Subject to conclusion of all matters related to the Cotesworth Group, the liquidators expect to conclude the liquidation of HIH EHC within the next twelve months.

12 Annual meeting of creditors

The fifth annual meetings of creditors and members will be held in London on 04 May 2007 at 10.00am and 10:15am respectively at KPMG LLP, 1-2 Dorset Rise, London EC4Y 8EN. Creditors and members will have an opportunity to question the liquidators over the matters in this report. In order that we may anticipate numbers attending, please contact Elena Konstantinova on +44 (0) 20 7311 8353 or by email at elena.konstantinova@kpmg.co.uk if you intend to attend the meeting. Notice of each meeting is enclosed with this letter together with a proxy form.

Yours faithfully
For HIH EHC

T A Riddell
Joint Liquidator

ABCD

KPMG LLP
*HIH European Holding Company Limited (in
liquidation) ("HIH EHC")*
05 April 2007

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