Registered Number 2517324

GOSHAWK INSURANCE HOLDINGS PLC

ANNUAL REPORT AND ACCOUNTS 2007

CONTENTS

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

Summary

The group has declared a profit for the year of $3 6m (2006 loss of $1 0m) or 0¢ per share (2006 0¢) The constituents of this profit are a $1 5m profit at Rosemont Reinsurance Ltd ("Rosemont Re") and a $2 1m profit within the rest of the group The group profit is due to $3 8m of income recognised in respect of the deferred consideration from the sale of Goshawk Dedicated (No 2) Limited ("GD2")

Operationally the group has progressed from the crisis management discussed in last year's report However, in terms of running off the balance sheet we are behind where we had hoped to be and whilst the gross reserve for losses and loss adjustment expenses has reduced from $274m to $167m and the actuary's range of likely outcomes has reduced from $91m to $43m the rump contains a growing proportion of problematic and volatile contracts

The progress that has been made has been largely down to a stronger management team in Bermuda and two particular projects undertaken during the year by Rosemont Re, namely an extensive program of cedant audits and a migration of the accounting system to one more suited to a run-off company

Review of the year

An extensive program of cedant audits was initiated at the start of the year and will continue into 2008 Ideally, such audits would have highlighted areas of saving but so far has been just as likely to uncover bad news as good

The previous accounting system at Rosemont Re was built around broker led business and made it difficult to get a complete picture of monies owed to or by a particular cedant or reinsurer The decision to migrate to a more suitable accounting system was a big one and involved a great deal of work during the year but its completion has meant a marked improvement in the speed of collections made from reinsurers, a greater degree of confidence in negotiating with cedants and a shortening of the reporting cycle However, as with the cedant audits, the migration highlighted as much bad news as good, particularly in the areas of receivable and payable balances

Outside Rosemont Re the focus has remained on the bank debt and whilst some early repayments have been possible, principally from the collection of the war consortium balances, the debt has only reduced from $20 9m to $16 1m Of increasing concern is the additional interest charge that becomes due from 1 May 2008 at 12 5% per annum This additional rate was agreed at a time when the group debt was distressed but, with the increasing likelihood of a GD2 recovery, the risk premium charged appears excessive and so the board is looking to re-market the debt However, given the turmoil in the debt markets there is no certainty that this will be achieved

The income statement and balance sheet are discussed in greater detail within the enhanced business review section of the directors' report but in general terms show a static picture at Rosemont Re with any improvements being off-set by losses Outside Rosemont Re further progress has been made in the collection of the GD2 deferred sale proceeds, in respect of which up to $8 2m could be received during 2008

Arbitration

One particular area of continued frustration is in the area of losses and loss adjustment expenses recoverable to the extent that Rosemont Re recently initiated arbitration proceedings against one of its reinsurers which has failed to settle $12 5m of billed losses recoverable, net of related reinsurance premiums payable Losses and loss adjustment expenses recoverable include a further $2 0m of balances that will become due for settlement in the near future, giving a total at risk of $14 5m

In response to the group's arbitration demand, the reinsurer has filed a defence of claim and is disputing its liability to pay the amounts both due and expected to become due

Management believes that the reinsurer's position is without merit and is aggressively pursuing the arbitration for full recovery of the amounts due plus interest and costs An adverse award from the arbitration would be material to the group and could cause a breach of the net worth covenants upon which the group's borrowings are conditional

Outlook

Under current conditions, should any surplus become distributable by the group it would not be before the end of 2009

Rory Macnamara
Chairman

Michael Dawson
Chief executive

24 April 2008

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2007

Results and Dividends
The results of the year show a profit on ordinary activities before and after taxation of $3 6m (2006 loss $1 0m)

The directors recommend that $nil dividends be paid (2006 $nil)

Principal Activities
The group's principal activities are the orderly run-off of Rosemont Re, a Bermuda based reinsurance company, and the realisation of the non-Rosemont Re assests

Enhanced business review
The group has declared a post tax profit of $3 6m (2006 loss of $1 0m) for the year ended 31 December 2007, which equates to a profit per share of 0¢ (2006 0¢) The key constituents of this profit are a $1 5m profit at Rosemont Re and a $2 1m profit within the rest of the group

At Rosemont Re, the profit of $1 5m has stemmed from net premiums earned of $2 0m, offset by a loss of $0 5m arising from investment income of $10 8m less expenses of $11 3m

For the rest of the group the profit of $2 1m arises from income of $6 3m, of which GD2 income of $3 8m was the single biggest contributor, less finance costs of $1 4m and expenses of $2 8m

Investment income for the year was $11 9m against $13 6m last year, the decreasing cash balances as claims are paid and falls in the US Federal Reserve rate being the contributing factors

General and administrative expenses have fallen by $5 0m to $12 6m This has been the result of savings across all categories with the exception of outsourced costs which rose by $3 4m to $4 8m mainly driven by this being the first full year of the provision of run-off services by PRO Insurance Solutions Limited, having been appointed on 23 October the previous year, as well as the cedant audits and change of accounting system discussed within the chairman and chief executive's report under 'review of the year' The $2 7m decrease in legal and professional fees reflects the greater operational stability within the group, as does the fall of $0 5m paid to our auditors The savings within administrative expenses of $1 8m stem from a number of sources including the decision to surrender the lease of the London office early and move to cheaper premises, reduced banking charges following the renegotiation of the group loans and the write back of an old creditor balance Staff costs have fallen by $2 0m, partly as the Rosemont Re team has reduced but mainly because last year included a one-off charge of $1 5m following the write-off of the share based compensation reserve However, this year's charge has been increased by $0 6m to reflect a provision for the retention and incentive award that potentially applies for the first time this year and is discussed in greater detail within the directors' remuneration report

Finance costs were $1 4m against $5 4m for last year due to three favourable factors The capital amount outstanding having been reduced by a number of repayments during the year, the absence of the additional default margin the banks were able to charge for most of the last year and the lower average US$ London Inter-Bank Rate on which the rate charged is based

The net asset value of the group stands at $71 8m (2006 $67 6m) at 31 December 2007 which equates to a net asset value per share of 8¢ (2006 8¢) This represents a movement of $4 2m during the year resulting from the profit of $3 6m discussed above and currency translation differences on the GB£ element of the UK subsidiaries brought forward, that is taken straight to reserves and not through the income statement

The independent actuary has produced a range of reserves for Rosemont Re The actuary's resulting range from low to high net estimates has reduced from $91m last year to $43m this year The range of estimated liabilities is provided in an attempt to quantify some of the uncertainty in estimating ultimate losses and does not present the bounds of all possible outcomes Indeed it is possible that the final cost to settle claims may still be more than the available capital resources

Previous reports have discussed the sale undertaken by previous management of GD2, which had incurred losses through its underwriting as a corporate name at Lloyd's For the sale to receive consideration a number of conditions need to be met One of these conditions is that the purchasers make sufficient profits against which the losses can be set at which point the relevant funds are deposited into escrow At 31 December 2007 the receipts into escrow, after adjusting for the time value of money based on when the asset is expected to be received, along with the related interest earned on balances, totalled $18 7m (2006 $13 7m) against which a provision for impairment of $5 0m (2006 $3 8m) is carried The provision aims to reflect the risk of non-recovery, see note 16

Key performance indicators ("KPIs")
The unusual circumstances of the company make a number of the standard KPIs less relevant and so management has chosen to focus on preservation of shareholders' capital

The two biggest threats to the preservation of shareholders' capital are a deterioration of the reserves at Rosemont Re (through an increase of the ultimate cost of the losses or non-collection of the reinsurance asset) and a breach of any of the banking covenants

Deterioration of the reserves at Rosemont Re gives rise to a diminution of the net asset value per share but also a potential breach of the net asset covenants required by the banks As discussed above, the net asset value of Rosemont Re remained stable during the year

Breach of the banking covenants creates the risk that the banks will move to exercise their rights under the security and that an accelerated exit leads to a diminution in shareholders' funds The banking covenants were renegotiated during 2006 and, because a deterioration of Rosemont Re's net asset value in the first half of the year might have led to a further breach, they were further amended on 16 April 2007 There has been no need for further renegotiations since 16 April 2007

Late reporting was previously identified as a KPI, but has now been removed to reflect the group's improved operational status

Financial risk management objectives and policies
The directors have set out their objectives and policies in the note 29 Risk management policies

Significant post balance sheet events
There were no significant post balance sheet events

Future Developments
The group will continue to run-off Rosemont Re and manage the group's non-Rosemont Re assets and liabilities, particularly the deferred consideration from the sale of GD2, the group debt and the restricted cash resources

Substantial Shareholdings
At 24 April 2008, the company had been notified of holdings of 3% or more of the company's voting rights shown below

	Number of ordinary shares of 1p each	% of voting rights
Phoenix Asset Management Limited*	305,445,790	34 72
Credit Suisse Securities (Europe Limited)	75,667,070	8 60
SC Fundamental	63,297,209	7 20
Funds under the discretionary management of Laxey Partners Limited	46,518,233	5 29

* Waiver of the requirements of Rule 9 of the Takeover Code was obtained at the Extraordinary General Meeting held on 26 September 2006

DIRECTORS' REPORT

Directors and their Interests
The directors of the company are shown in the corporate governance report No director had any direct interest in the share capital of the company, as defined by the Companies Act 1985

R Canham is an investor in the Phoenix UK Fund, which is managed by Phoenix Asset Management Limited the company's largest shareholder He is a nominee of Phoenix Asset Management Limited and so is not considered to be independent

No director has any interest in the shares of any subsidiary company

Each of the directors has a deed of indemnity granted by the company These were updated to reflect current legislation and signed on 8 April 2008

Charitable and Political Donations
No donations have been made during the year (2006 $Nil)

Staff numbers
The average monthly number of employees of the group during the year, including executive directors, was 6 (2006 9)

Share Incentive Plan
No directors had interests in the Share Incentive Plan

Auditors
Each of the persons who is a director at the date of approval of this annual report confirms that
- so far as the director is aware, there is no relevent audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with Section 234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming AGM

Statement of Supplier Payment Policy
The group does not follow any specific code or standard on payment practice, however, it is the intention of the group to ensure that all of its suppliers of goods and services are paid in accordance with contractual and legal obligations The average trade creditors of the group, which excludes reinsurance creditors, represented approximately 44 creditor days (2006 83) based on the ratio of trade creditors to the amounts invoiced during the year

Going Concern
The directors have concluded that both the group and company accounts should be produced on a going concern basis and have set out their grounds for continuing to do so in note 1 of both the group and company accounts

Capital structure
Details of the Company's issued share capital are set out in note 24 All of the Company's issued ordinary shares are fully paid up and rank equally in all respects The rights attached to them, in addition to those conferred on their holders by law, are set out in the Company's articles of association ("the articles") There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except (i) where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or (ii) where their holder is precluded from exercising voting rights by the FSA's listing rules or the City Code on Takeovers and Mergers Rules about the appointment and replacement of directors are set

out in the articles Changes to the articles must be approved by shareholders passing a special resolution The directors' powers are conferred on them by UK legislation and by the articles Currently the directors have no authority to effect purchases of the company's shares on its behalf and, in order to do so, the directors would require the prior approval of shareholders at a general meeting Other than the condition set out within the final paragraph on page 9, there are no agreements between any group company and any of its employees or any director of the company which provide for compensation to be paid to the employee or director for termination of employment or for loss of office as a consequence of a takeover of the company

Statement of directors' responsibilities in relation to the financial statements
The directors are responsible for preparing the annual report, directors' remuneration 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 The directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs However, directors are also required to
- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company In preparing these 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, and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements

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 parent company 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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

By order of the Board

Capita Company Secretarial Services Limited

Company Secretary
24 April 2008

CORPORATE GOVERNANCE REPORT

The directors report on the company's compliance with the 2006 Combined Code on Corporate Governance, ("the code")

Following the resignation of the previous board during November 2005 the group ceased to be compliant with the aspects of the code noted below and has remained so since that date due to the minimal size of the board that has taken on responsibility for group operations The specific principles with which the directors have not complied are

- A1 The board In that no audit, nomination or remuneration committee exists,
- A3 Board balance and independence in that the board did not have a majority of non-executive directors,
- A4 Appointments to the board in that the current directors expect to see the company through to conclusion and so no succession plans are in place,
- A6 Performance evaluation in that no documented procedures exist, and
- C3 Audit committee and auditors in that no audit committee exists

However, the directors consider that they have established internal systems and controls appropriate to the current circumstances of the company These have been in operation throughout the year and up to the date of the annual report These include, but are not limited to, regular internal reporting and minuted board meetings along with clear expense authorisation levels and service contracts with key providers of outsourced services Where outsource arrangements exist they are controlled by monitoring the key deliverables defined within the related service contract

The directors are responsible for the company's systems of internal control and for reviewing the effectiveness of these systems, which are designed to provide reasonable, but not absolute assurance against material avoidable loss or misstatement of financial information They are also designed to manage rather than eliminate the risk of failure to achieve business objectives

Whilst there is no remuneration committee, the incentive programmes for all the directors were agreed at the EGM held on 26 September 2006, and have not changed since that date However, the directors now feel that the scheme currently in force does not accommodate all possible outcomes for the group and it is their intention to propose a variation at the forthcoming AGM

The following individuals served as directors of the company during the year

RP Macnamara	Chairman	Non-executive
MG Dawson	Chief executive	Executive
PJ Dixon-Clarke	Finance director	Executive
R Canham[1]	Non-executive	Non-executive

[1] Appointed on 27 March 2007

The board's role is to ensure the orderly run-off of Rosemont Re and to preserve shareholders' value

No board committees existed during the year, the directors' attendance at scheduled board meetings was as follows

	Board meetings held 6 Number attended
RP Macnamara (Board chairman)	6
MG Dawson	6
PJ Dixon-Clarke	6
R Canham[1]	4

(1) Appointed on 27 March 2007 after the first two meetings had taken place

As stated above, following the appointment of the existing board during November 2005 the group ceased to be compliant with the code and has remained so since that date due to the minimal size of the board that has taken on responsibility for group operations There is currently no agreed timetable for returning to full compliance

R Canham was appointed to the board on 27 March 2007 as a non-executive director, as he is a nominee of the company's largest shareholder he is not considered to be independent

Andrew Fox resigned as the company secretary on 26 February 2007 and was replaced by Capita Company Secretarial Services Limited

The terms of the contracts for the non-executive directors can be obtained from the company

As none of the directors are considered independent there can be no senior independent director

Directors' biographies

Rory Macnamara, aged 53

Having qualified as an accountant with Price Waterhouse, Rory began a seventeen year career in corporate finance at Morgan Grenfell & Co Limited in 1981 during which he rose to become Head of Advisory and deputy chairman During his time at Morgan Grenfell he advised on a large range of public and private M&A transactions, fund raisings and flotations as well as gaining fixed income experience working with debt advisory teams, most notably during his secondment to Eurotunnel He joined Lehman Brothers as Head of UK Coverage in 1999 and has been an independent consultant since 2002 Rory is chairman of Izodia PLC and a director of Raven Mount plc and holds various other company directorships Rory became chairman of Goshawk in November 2005

Michael Dawson, aged 46

Michael was the founder of Cox Insurance Holdings Plc, regarded as one of the leading personal lines insurers in the UK, which, during his tenure, between 1994 and 2002, developed into a listed business with 2,000 employees and over one million customers He is an active underwriter at Lloyd's and is registered to the highest insurance level with the FSA During the period from 1997 to 2000 Michael served as a member of the Council of Lloyd's He was chairman of Kinnect Holdings Plc, and is director of several other companies Michael joined GoshawK as chief executive in November 2005

Peter Dixon-Clarke, aged 42

Peter is also group finance director for Rockhopper Exploration plc, an oil and gas explorer with concessions in the North Falkland basin He qualified as a chartered accountant with Deloitte & Touche LLP in the financial services group and left in 1995 to work at what is now Amlin plc to head up the financial affairs of the group's biggest division, seeing it through the Lloyd's market turnaround and subsequent group flotation Peter joined GoshawK in March 2006

Roger Canham, aged 43

Roger graduated as a surveyor at Reading University before taking up a position with Nikko Securities Europe in their fixed income division for three years He then moved on to work in and grow a food distribution business for twelve years, ultimately becoming the owner and exiting in 2002 by way of a trade sale to an international food distribution business, in which he then took an executive board role for the next year Roger then went on to found a number of property related businesses, which he has continued to grow, along with developing interests in a number of early stage businesses He joined the board of Goshawk as a non-executive director in March 2007

RP Macnamara
Chairman

24 April 2008

DIRECTORS' REMUNERATION REPORT

This report sets out the group's policy on the remuneration of executive and non-executive directors, together with details of directors' remuneration packages and service contracts

Unaudited part of the remuneration report

Remuneration committee
All the members of the remuneration committee resigned as directors of the company on 18 November 2005 and the committee ceased to exist from that date

Remuneration policies
Following the resignation of the committee during 2005 the group has had no formal remuneration policy, however, the incentive programmes of the directors commenced at the time were approved at the EGM held on 26 September 2006 and have not changed since that date

Remuneration packages – salaries or fees only (see also below)
The remuneration of RP Macnamara consisted of fees invoiced monthly to the group on the basis of £70,000 per annum

The remuneration of MG Dawson consisted of a salary of £150,000 per annum, of £100,000 per annum for PJ Dixon-Clarke and £25,000 per annum for R Canham

The amount payable on termination of contract by the company is set out in the final paragraph of page 9

Bonus payments
Bonus payments made during the year are set out in the table within the audited part of this report

Incentive programmes
In addition to fees and salaries, the directors, excluding R Canham, are incentivised by two bonus schemes, as set out in the group bonus plan, an annual bonus scheme and a retention and incentive award

Annual bonus scheme
The group, as a reward and incentive for the successful management of its run-off, makes available bonuses to the directors

For each of the 2006, 2007 and 2008 financial years each director is entitled to a bonus equal to 45% of the fees and/or salary paid to him by the group, provided that the company is solvent at the end of the relevant financial year (as determined by the audited consolidated accounts of the group for that financial year)

In addition, each director shall be eligible for a non-contractual discretionary bonus of up to 25% of the fees and/or salary paid to him by the group, provided that the company is solvent at the end of the relevant financial year (as determined by the audited consolidated accounts of the group for that financial year) Payment of the bonus shall be at the sole and absolute discretion of the board of directors of the company and shall be determined by reference to the performance of the relevant director in the previous twelve months

Half of any bonus paid to the directors shall be deferred until the publication of the audited consolidated accounts of the group for the financial year which is two years after the financial year in respect of which the bonus is due and shall be conditional upon the company being solvent at the year end of that second financial year (as determined by the relevant audited consolidated accounts of the group)

Under the terms of the group bonus plan, the payment of any bonus is subject to and conditional upon the company having sufficient funds to make such payment without material detriment to its solvency, as determined by the board of directors of the company in their absolute discretion

Retention and Incentive Award
The scheme currently in force is set out below and is as agreed by shareholders at the EGM on 26 September 2006 However, the directors now feel that the scheme does not accommodate all possible outcomes for the group and it is their intention to propose a variation at the forthcoming AGM

In addition to bonuses, the directors shall be entitled under the group bonus scheme to a "Retention and Incentive Award" equal to 0 15 times the "NAV Increase", where the "NAV Increase" equals (A+B–E) – (C+D) and

A = either (i) the net asset value of the group, as set out in the annual audited consolidated accounts of the group as at 31 December of the financial year in respect of which the NAV Increase is being calculated, including any distributable profit of the company to the extent that the same has been distributed or declared for distribution and is reflected in the audited consolidated accounts of the group as at that date, or (ii) in the event that a general offer has been made for the entire issued share capital of the company which has been declared unconditional as to acceptances, the total amount receivable by shareholders pursuant to such general offer,

B = the aggregate of any amounts distributed to its shareholders by the company to the extent not included in A,

C = the net asset value of the company as stated within the audited consolidated accounts for the group as at 31 December 2005,

D = the net proceeds of the Rights Issue, and

E = the net asset value of Rosement Re as at the end of the relevant financial year, as stated in Rosemont Re's annual regulatory return to the BMA for that financial year

This "Retention and Incentive Award" shall be allocated between the Beneficiaries and PRO as follows

Beneficiary	Percentage
MG Dawson	20%
RP Macnamara	13 334%
PJ Dixon-Clarke	6 666%
Rosemont Re directors	30%
PRO Insurance Solutions Limited	26 666%
See below	3 334%
	100%

The remaining 3 334% of the "Retention and Incentive Award" shall be allocated to the directors and/or employees of the members of the group at the sole and absolute discretion of the directors

The "Retention and Incentive Award" shall be calculated by reference to the audited consolidated accounts for the group for the 12 months ended 31 December 2007 and each subsequent financial year and shall only be payable to the extent that the NAV Increase is available for distribution to Shareholders If a proportion of the NAV Increase is unavailable for distribution the "Retention and Incentive Award" payable in respect of any financial year shall be reduced by the same proportion

No outstanding bonus or "Retention and Incentive Award" shall be payable to a Beneficiary if his employment or directorship is terminated by the company for cause (or if notice of such termination has been given) or he voluntarily terminates his employment or resigns his directorship with the company without "Good Reason" (as defined in the group Bonus Plan) or if notice of such termination has been given

If a Beneficiary has his employment or directorship terminated by the company without cause or terminates his directorship for "Good Reason" (as defined in the Group Bonus Plan) he shall be entitled to any accrued Bonus and his share pro rated by time (by reference to the period 1 January 2006 to 30 September 2009) of the "Retention and Incentive Award" (if any) to the extent not already paid

If a Beneficiary terminates his directorship because of a change of control of the company or by way of a general offer for the entire issued share capital of the company which has been declared unconditional he shall be entitled to prompt payment of any Bonus to which he is entitled, payment of which has been deferred as referred to above and/or his share of the "Retention and Incentive Award", which shall be deemed to be the greater of the actual "Retention and Incentive Award" (as calculated above) and \$1 5m (the \$1 5m equating to an increase in the net

DIRECTORS' REMUNERATION REPORT

asset value of the company of $10m) Consequently, it is possible under the terms of the group bonus plan for the directors, in the event of a change of control of the company, to receive a payment based on a deemed increase in the net asset value of the company of $10m in circumstances where there has been no actual increase in the net asset value or the actual increase is less than $10m

The provisions in the group bonus plan relating to the directors, the amounts payable to them thereunder, the maximum entitlement of any one director and the basis for determining the director's entitlement to, and the terms of, the benefits to be provided to them thereunder cannot be altered without the prior approval of shareholders in general meeting

Benefits under the scheme will not be pensionable

Long Term Incentive Plan

A Long Term Incentive plan ("LTIP") was established in November 1999 to better align the interests and efforts of executive directors and certain senior underwriters with the group's objectives All the participants in the LTIP have since left the company and their entitlement has lapsed accordingly The matched shares currently remain in trust

Service Contracts

None of the current directors had a previous service contract with any member of the group The current contracts are open-ended but terminable by either party with three months notice PJ Dixon-Clarke and MG Dawson served as employees throughout the year

Performance

The following line graph details for the financial year ended 31 December 2007 and for each of the previous two financial years the total shareholder return (TR) on a holding of the company's ordinary shares compared to the corresponding change in a hypothetical holding of shares in the FTSE All-share non-life index The index was selected because, until 2005, the company was a constituent member

Audited part of the report

Fees, salary and benefits

The salary and benefits of the directors of the company for the years ended 31 December 2006 and 2007 were as follows

	Salary or fees $ 000	Discretionary bonus $ 000	Non-discretionary bonus $ 000	**2007 Total $ 000**	2006 Total $ 000
Executive directors					
MG Dawson	299	33	67	**399**	357
PJ Dixon-Clarke	199	21	45	**265**	307
Non-executive directors					
RP Macnamara	139	16	31	**186**	231
R Canham	39	–	–	**39**	–
	676	70	143	**889**	895

The accounts contain a provision of $630k in respect of the retention and incentive award Whilst the payment of this is based on the final outcome and is therefore deferred until any distribution is payable to shareholders, the group's net asset value has increased to the point a provision is required on the basis outlined in the table below

	2007 $'000	2006 $ 000
Group net asset value at the year end	**71,788**	67,598
Less group net asset value at 31 December 2005	**(28,685)**	(28,685)
Less funds invested in 2006	**(39,532)**	(39,532)
Plus provision already made	**630**	–
Base value for calculation	**4,201**	(619)
15% of base value	**630**	–
Due to the directors 40%	**252**	–

Of the $630k provided, only 40% is due to the directors, whose actual shares are set out earlier within this renumeration report

The services of RP Macnamara are provided by Fenford Limited, of which he is a director and shareholder

Details of directors' interests and the group bonus plan are included in the unaudited section of this report

All of the fees, salaries or bonuses outlined above are set and paid in GB£

By order of the board

RP Macnamara
Chairman

24 April 2008

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF GOSHAWK INSURANCE HOLDINGS PLC

We have audited the group financial statements of Goshawk Insurance Holdings plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 29 These group financial statements have been prepared under the accounting policies set out therein We have also audited the information in the directors' remuneration report that is described as having been audited

We have reported separately on the parent company financial statements of Goshawk Insurance Holdings plc for the year ended 31 December 2007 That report is modified by the inclusion of an emphasis of matter paragraph

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, the directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities

Our responsibility is to audit the group 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 group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been 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 group financial statements The information given in the directors' report includes that specific information presented in the chairman's and chief executive's statement that is cross referred from the enhanced business review section of the directors' report

In addition we report to you if, in our opinion, 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 review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures

We read the other information contained in the annual report and consider whether it is consistent with the audited group financial statements The other information comprises only the chairman's and chief executive's statement, the directors' report, the unaudited part of the directors' remuneration report and the corporate governance statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements Our responsibilities do not extend to any other information outside the annual report

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 group financial statements and the part of the directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF GOSHAWK INSURANCE HOLDINGS PLC – continued

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 group financial statements and the part of the directors' remuneration report to be audited 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 group financial statements and the part of the directors' remuneration report to be audited

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the group financial statements

Emphasis of matter – Loss and loss adjustments expenses and associated reinsurance recoveries

Without qualifying our opinion, we draw attention to the disclosures made in note 29(e) to the accounts concerning the significant level of uncertainty relating to the reserves for losses and loss adjustment expenses and the anticipated reinsurance recoveries on those losses The ultimate net liability of the loss and loss adjustment expense reserve, currently estimated as $122m, will vary as a result of subsequent information and events and these may result in significant adjustments to the amounts provided It is not possible for us to quantify the potential effects of such adjustments

Emphasis of matter – Going Concern

Without qualifying our opinion, we draw attention to the disclosures made in note 1 to the accounts concerning the ability of the group to continue as a going concern In note 1 the directors have described the restrictions surrounding the group's working capital and the fact that the successful completion of any planned mitigating actions is uncertain These conditions indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

24 April 2008

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 $ 000	2006 $ 000
Revenue			
Gross premiums written	4	**2,848**	6,007
Change in unearned premiums reserve		**–**	20,828
Gross premiums earned		**2,848**	26,835
Reinsurance premiums ceded		**(830)**	(2,553)
Change in deferred reinsurance premiums ceded		**–**	(5,444)
Reinsurance premiums ceded		**(830)**	(7,997)
Net premiums earned		**2,018**	18,838
Net investment income	5	**11,854**	13,591
Net realised gains on financial assets		**–**	332
Other income	6	**5,084**	9,192
Net foreign exchange gain		**156**	1,642
Total net revenues		**19,112**	43,595
Expenses			
Net losses and loss adjustment expenses	7	**(6)**	14,244
Net acquisition expenses	8	**1,540**	7,378
General and administrative expenses	9	**12,618**	17,587
Finance costs	11	**1,371**	5,363
Total expenses		**15,523**	44,572
Profit/(loss) before tax		**3,589**	(977)
Income tax expense	12	**–**	–
Net profit/(loss) after tax arising from continuing activities and attributable to equity holders of the parent company		**3,589**	(977)
Earnings per share: basic and diluted – cents	13	**0**	(0)
Weighted average number of common shares – basic and diluted	13	**877,358,122**	318,313,035

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

	Notes	2007 $'000	2006 Re-presented* $ 000
Assets			
Losses and loss adjustment expenses recoverable	14	**44,386**	132,497
Reinsurance balances receivable	15	**32,661**	55,686
Other receivables	16	**13,793**	14,274
Accrued investment income		**151**	482
Prepaid expenses and other assets	17	**179**	137
Cash and cash equivalents	18	**203,115**	234,335
Total assets		**294,285**	437,411
Liabilities			
Reserve for losses and loss adjustment expenses	19	**166,811**	273,552
Reinsurance balances payable	20	**32,326**	65,165
Loans payable	21	**16,107**	20,901
Accounts payable and accrued liabilities	23	**7,253**	10,195
Total liabilities		**222,497**	369,813
Equity			
Share capital	24	**28,922**	28,922
Share premium		**307,489**	307,489
Retained losses		**(264,623)**	(268,813)
Equity		**71,788**	67,598
Total liabilities and equity		**294,285**	437,411
Net assets per share – cents		**8**	8

* The re-presentation is discussed in note 2 3

The accounting policies and notes on pages 18 to 42 are an integral part of these financial statements

The financial statements were approved and authorised for issue by the board of directors on 24 April 2008 and were signed on its behalf by

MG Dawson
Chief executive

PJ Dixon-Clarke
Finance director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 $'000	2006 $'000
Share Capital			
Balance, beginning of year	24	**28,922**	15,745
Additional shares issued		–	13,177
Balance, end of year		**28,922**	28,922
Share premium			
Balance, beginning of year		**307,489**	283,584
Additional paid-in capital on shares issued		–	26,355
Issue costs		–	(2,450)
Balance, end of year		**307,489**	307,489
Other reserves			
Balance, beginning of year		–	9,952
Transfer to retained losses		–	(9,952)
Balance, end of year		–	–
Reserve for share based compensation			
Balance, beginning of year		–	(1,747)
Share based expense recognised in income statement		–	1,532
Currency translation differences		–	215
Balance, end of year		–	–
Retained losses			
Balance, beginning of year		**(268,813)**	(278,849)
Profit for the year		**3,589**	(977)
Currency translation differences recognised directly in equity		**601**	1,061
Transfer from other reserves		–	9,952
Balance, end of year		**(264,623)**	(268,813)
Total equity		**71,788**	67,598

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 $'000	2006 $ 000
Cash flows from operating activities			
Net profit/(loss)		**3,589**	(977)
Adjustments to reconcile net income to cash provided by operating activities			
Net realised (gains) on sales of financial assets		–	(332)
Depreciation		**79**	97
Finance costs	11	**1,371**	5,363
Share based remuneration expense		–	1,532
Retention and incentive award provision		**630**	–
Other non-cash transactions		**(109)**	1,387
Changes in			
Loss and loss adjustment expenses recoverable		**88,111**	21,329
Deferred premiums ceded		–	5,444
Deferred acquisition costs		–	4,999
Reinsurance balances receivable		**23,025**	44,261
Other receivables		**481**	(9,119)
Accrued investment income		**331**	(412)
Prepaid expenses and other assets		**(42)**	24
Reserve for losses and loss adjustment expenses		**(106,741)**	(183,623)
Unearned premiums		–	(20,828)
Reinsurance balances payable		**(32,839)**	(2,648)
Accounts payable and accrued liabilities		**(2,942)**	3,085
Cash (utilised) by operating activities		**(25,056)**	(130,418)
Cash flows from investing activities			
Net proceeds from sales of financial assets		–	23,874
Sale (purchase) of assets		**1**	(208)
Cash provided by (used in) investing activities		**1**	23,666
Cash flows (to)/from financing activities			
Payment of finance costs		–	(80)
Repayment of credit facilities		**(6,165)**	(51,781)
Proceeds on issue of shares		–	37,082
Cash (used in) by financing activities		**(6,165)**	(14,779)
Net cash inflow/(outflow)		**(31,220)**	(121,531)
Cash and cash equivalents, beginning of year		**234,335**	355,886
Cash and cash equivalents, end of year		**203,115**	234,335

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1 Going concern
GoshawK Insurance Holding plc (the "company") has no trading income and so has only the residual proceeds of the recent rights issue to provide working capital Other than in respect of its UK subsidiaries the company cannot expect to receive distributions from within the group because the statutory solvency of Rosemont Re, its principal subsidiary, has fallen below the minimum level required of it by its regulator, the Bermuda Monetary Authority ("BMA"), and so it will require specific consent before making any distributions There can be no certainty that the BMA would agree to such a distribution

The independent actuary has produced a range of reserves for Rosemont Re The actuary's resulting range from low to high net estimates has reduced from $91m last year to $43m this year The range is provided in an attempt to quantify some of the uncertainty in estimating ultimate losses and does not present the bounds of all possible outcomes Indeed it is possible that the final cost to settle claims may still be more than available capital resources Any increases in the expected ultimate cost of Rosemont Re's claims will reduce the likelihood of the BMA agreeing to any return of capital prior to full run-off of all its outstanding liabilities

Furthermore, under the terms of the facility agreement renegotiated with lenders on 23 August 2006, Rosemont Re is required to maintain a minimum level of net assets Following the work by the external actuary on the reserves of Rosemont Re at 31 December 2006, it was recognised that the net asset value of Rosemont Re might fall below the covenanted level requiring an amendment that was granted by the lending banks on 16 April 2007 An increase of no more than 3 5% of the gross liabilities ($5 8m) of Rosemont Re would cause the group to breach its covenant

Additional interest is payable at a rate of 12 5% on the average principal amount outstanding for the period from 1 May 2008 to 30 April 2009 This increase will place additional strain on group resources

Despite the uncertainty arising from the above matters, and having considered the likelihood of success of the possible options available, including if necessary the sale of Rosemont Re, the directors are satisfied that the group is currently a going concern and that the preparation of these accounts on that basis is appropriate

If the financial statements had not been prepared on a going concern basis it would have been necessary to make adjustments to the carrying value of the assets of the group It would also be necessary to accrue for winding up costs The financial statements do not include any such adjustments

2 Accounting policies
2.1 Group and its operations
The company, a public limited company incorporated and domiciled in the United Kingdom ("UK"), together with its subsidiaries (collectively, "the group") transacted reinsurance business through its Bermuda based subsidiary Rosemont Re

Through Rosemont Re, the group provided catastrophe reinsurance of property and marine risks worldwide As a result of the 2005 hurricane losses to Rosemont Re, its subsequent credit rating downgrade and its inability to raise additional capital or find a buyer, Rosemont Re was placed into run-off in October 2005

2 2 Basis of preparation
From 1 January 2005 all European Union listed companies are required to prepare their consolidated financial statements using standards issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union These financial statements have been prepared using the accounting policies set out below, which are in compliance with Article 4 of the EU Regulation

In accordance with the standard for Phase I of insurance contracts, IFRS 4, the group has applied existing accounting practices for insurance contracts

Items included in the financial statements of each of the group's entities are measured in the currency of the primary economic environment in which that entity operates (the "functional currency") The consolidated financial statements are stated in US dollars, the functional and presentation currency of the company and Rosemont Re, the main trading subsidiary, is US dollars whilst the functional currency of the remaining subsidiaries is £ sterling All values are rounded to the nearest thousand dollars ($'000), also stated as 'k', except when otherwise indicated

2 2 Basis of preparation – continued

At the date of authorisation of these financial statements, the following standards, which had not been applied in these financial statements were in issue but not yet effective

IFRS 8 – Operating segments
IAS 1 – Amendment Presentation of financial statements – A revised presentation
IAS 23 – Amendment Borrowing costs
IFRIC 11 – IFRS 2 group and treasury share transactions
IFRIC 12 – Service concession arrangements
IFRIC 13 – Customer loyalty programmes
IFRIC 14 – IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

Management does not believe that the application of these standards will have a financial impact on the financial statements, except for the requirement of additional disclosures

2 3 Re-presentation of prior year comparatives

The accounting system previously used by Rosemont Re held balances on a broker by broker basis effectively netting off the debtor and creditor balances of each cedant As part of the transition to run-off the orginal accounting system has been replaced with one that does hold balances by cedant, so allowing a grossed up position to be presented for both the current and prior years with the result outlined in the table below

	Reinsurance balances receivable $ 000	Reinsurance balances payable $ 000
Net receivable as stated in prior accounts	7,162	16,641
Creditor balances previously netted against premiums receivable	48,524	48,524
As stated in current accounts	55,686	65,165

A provision, predominantly in respect of the war consortium commission, was previously presented within accounts payable as a creditor The current presentation matches the provision against the asset and shows the asset net

	Other receivables $ 000	Accounts payable $'000
As stated in prior accounts	15,551	11,472
Debtor provision previously presented within accounts payable	(1,277)	(1,277)
As stated in current accounts	14,274	10,195

2 4 Summary of significant accounting policies

(a) Basis of accounting

The group has identified the accounting policies that are most significant to its business operations and the understanding of its results These accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to the reserve for losses and loss adjustment expenses and loss and loss adjustment expenses recoverable In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgments based on information and financial data that may change in future periods

Since these involve the use of assumptions and subjective judgments as to future events and are subject to change, the use of different assumptions or data could produce materially different results

The measurement basis that has been applied in preparing the financial statements is historical cost with the exception of financial assets which are held at fair value

The significant accounting policies adopted in the preparation of the financial statements are set out below

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

2.4 Summary of significant accounting policies – continued

(b) Basis of consolidation
These consolidated financial statements include the accounts of the company and all of its subsidiaries Subsidiaries are those entities in which the company has the power to exercise control over financial and operating policies in order to gain economic benefits Subsidiaries are consolidated from the date on which effective control was transferred to the group and are excluded from consolidation from the date of disposal or when control no longer exists over financial and operating policies

All inter-company accounts and transactions have been eliminated on consolidation

(c) Segmental reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments

(d) Foreign currency translation
Foreign currency transactions are accounted for at the exchange rates prevailing at the start of the month in which the transaction occurred Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement

Income statements and cash flows of entities with a functional currency other than US dollars are translated into the group's presentation currency at average rates while balance sheets are translated at the rates of exchange ruling at the balance sheet date Exchange differences arising from the conversion of subsidiaries with a different functional currency are accounted for through reserves

Non-monetary assets and liabilities are translated at the average rate prevailing in the period in which the asset or liability first arose

The year end rates of exchange actually used were

	2007	2006	2005
£ US$	1 9900	1 9591	1 7208

(e) Reinsurance operations
(i) Premiums written and ceded
Gross premiums written on non-proportional business were accounted for at inception of the contract on the basis of the contractually stated minimum and deposit premium, such amounts are then adjusted in accordance with the contractural terms in later years as final premiums become known Gross premiums written on proportional business are accounted for when reported to the company by the cedant or broker All premiums were recognised in income on a pro rata basis over the period that the underlying coverage is provided All premiums are deemed to be fully earned as the company ceased writing new business in October 2005

Reinsurance premiums ceded were accounted for at inception of the contract on the basis of the contractually stated minimum and deposit premium, such amounts are then adjusted in later years in accordance with the contractual terms All ceded premiums were fully earned at 31 December 2006

Reinstatement premiums on both assumed and ceded business are estimated after the occurrence of a significant loss and are accrued in accordance with the contract terms based upon estimates of ultimate losses assumed and ceded

(ii) Acquisition costs
Acquisition costs comprise reinsurance commissions, brokerage and FET in relation to assumed business written in prior years Current costs are associated with adjustment premiums recognised during the year and are expensed when reported to the company by the cedant or broker

2.4 Summary of significant accounting policies – continued

(iii) Losses and loss adjustment expenses

The reserve for losses and loss adjustment expenses comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR) The reserve is set by management based on an actuarial review by their external actuary The actuarial estimates are derived using standard actuarial methods that produce loss estimates based on assumptions of loss development patterns and initial expected loss ratios taking account of the historical experience of the portfolio

The standard actuarial methods used produce results based on assumed development patterns for premiums, and paid and incurred claims Development patterns and initial expected loss ratios are judgementally selected for each underwriting year The main assumption underlying these techniques is that past claims experience can be blended with initial expectations to project ultimate claims costs Due to the relative lack of history, significant reliance on benchmark development patterns is necessary

Specific adjustments are made for catastrophe losses Judgemental allowance is made for qualitative factors that may affect the data Estimates for catastrophe losses take account of both loss reporting and anticipated cedant exposures Owing to the one-off nature of catastrophic losses, a high degree of judgement is required during the early development of these losses

Reserves are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurer's share of incurred losses and loss adjustment expenses If a recoverable is impaired the group reduces its carrying amount accordingly and will immediately recognise the impairment loss in the income statement A reinsurance recovery will be deemed to be impaired if there is objective evidence that, as a result of an event that occurred after the initial recognition of the recovery, the group may not receive all amounts due to it under the reinsurance contract, and that the event has a reliably measurable impact on the amounts that the group will receive from the reinsurer

While the directors consider that the reserve for losses and loss adjustment expenses is 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 foreseen Any adjustment to the amount of the reserve is reflected in the accounts for the period in which the adjustment is made

(f) Investment income

Investment income consists of interest receivable for the period Interest income is recognised as it accrues, taking into account the effective yield on the investment

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash held at banks and in hand, deposits held on call with banks and other short-term highly liquid securities with less than ninety days maturity from the date of acquisition For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within accounts payable and accrued liabilities on the balance sheet

(h) Financial assets

Investments

IAS 39 "Financial Instruments Recognition and Measurement" permits entities to designate certain financial instruments as being held at fair value through profit or loss The group has taken this option in respect of its financial investments

Purchases and sales of investments are recognised on the trade date, which is the date that the group commits to purchase or sell the assets, at their fair value less transaction costs

The fair values of investments are based on quoted bid prices at the balance sheet date where available

The fair value category is used as the group's strategy is to manage financial investments on a fair value basis

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

2.4 Summary of significant accounting policies – continued

Loans and receivables
Loans and receivables, which predominantly relate to other receivables, are measured at fair value The assessment of fair value takes into account, where appropriate, the length of time before a full recovery may be made Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement where there is evidence that the asset is impaired If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance

(i) Income taxes and deferred taxation
The current tax expense is based on the taxable profits for the period, after any adjustments in respect of prior years Tax, including tax relief for losses if applicable, is allocated over profits before tax and amounts charged or credited to reserves as appropriate

Deferred taxation is recognised in respect of all taxable temporary differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions
- provision is not made for deferred tax that would arise on the retained earnings of overseas subsidiaries where the company has determined that these earnings will not be distributable in the foreseeable future, and
- deferred tax assets are recognised only to the extent that the directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary 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 temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

(j) Prepaid expenses and other assets
Prepayments are recognised as the fair value of expenses incurred that provide a clear benefit for future accounting periods Depreciation is calculated on the straight line method to write down the cost of the asset to their residual values over their estimated useful lives as follows

Leasehold improvements	Three years
Computer and office equipment	Three years

(k) Loans payable
Loans payable are stated at fair value

(l) Derivative liability
The warrants and potential warrants issued to the company's lenders under its credit facilities have been classified as derivative and embedded derivative liabilities respectively and are carried on the balance sheet at fair value The warrants and potential warrants will be classified as derivative liabilities until such time as they expire or that they are settled by a delivery of shares

(m) Leases
Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases Payments made as lessees under operating leases are charged to the income statement on a straight line basis over the period of the lease

(n) Employee benefits
Pension plans
The group operates a defined contribution pension scheme Once the contributions have been paid, the group, as employer, has no further payment obligations The group's contributions are charged to the income statement in the year to which they relate and are included in staff costs

(o) Offsetting of financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously

2 4 Summary of significant accounting policies – continued

(p) Current, non-current disclosure
The group does not present its balance sheet on the basis of current and non-current assets and liabilities as presentation broadly in order of liquidity is more relevant

3 Use of estimates, assumptions and judgements
The group makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities Estimates, assumptions and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances The most material area relates to the reserve for losses and loss adjustment expenses which can be more or less than adequate to meet eventual claims arising This area is covered in note 28

4 Segmental analysis
(a) Basis of segmentation
Business segments
The group's segments reflect the way the business is managed Due to the size of the losses at Rosemont Re in respect of catastrophes, these have been separately analysed in the income statement within net losses and loss adjustment expenses All revenue and expenses are in respect of external parties

Geographical segments
The group has two geographical segments, being the UK and Bermuda All of Rosemont Re's managment and decision making is undertaken in Bermuda and almost all of the rest of the group's activity is undertaken in the UK The geographical segments are therefore consistent with the business segments, the one exception being the finance costs which accrue to GoshawK Holdings (Bermuda) Limited ("GHB") a Bermuda registered company and are presented separately

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

4 Segmental analysis – continued

(b) Business segmental analysis

Income statement for the year ended 31 December 2007

	Rosemont Re $ 000	Other $ 000	Total $ 000
Gross premiums written	2,848	–	2,848
Gross premiums earned	2,848	–	2,848
Net premiums earned	2,018	–	2,018
Other income	10,847	6,247	17,094
Total net revenues	12,865	6,247	19,112
Net losses and loss adjustment expenses			
– Catastrophe	3,813	–	3,813
– Other	(3,819)	–	(3,819)
Finance costs	–	1,371	1,371
Other expenses	11,376	2,782	14,158
Total expenses	11,370	4,153	15,523
Net profit before tax	1,495	2,094	3,589

Income statement for the year ended 31 December 2006

	Rosemont Re $ 000	Other $ 000	Total $ 000
Gross premiums written	6,007	–	6,007
Gross premiums earned	26,835	–	26,835
Net premiums earned	18,838	–	18,838
Other income	12,662	12,095	24,757
Total net revenues	31,500	12,095	43,595
Net losses and loss adjustment expenses			
– Catastrophe	12,744	–	12,744
– Other	1,500	–	1,500
Finance costs	–	5,363	5,363
Other expenses	17,554	7,411	24,965
Total expenses	31,798	12,774	44,572
Net loss before tax	(298)	(679)	(977)

4 Segmental analysis – continued

Balance sheet as at 31 December 2007

	Rosemont Re $ 000	Other $ 000	Total $ 000
Assets			
Losses and loss adjustment expenses recoverable	44,386	–	44,386
Other assets	224,254	25,645	249,899
Total assets	268,640	25,645	294,285
Liabilities			
Losses and loss adjustment expenses			
– Catastrophe	82,248	–	82,248
– Other	84,563	–	84,563
Loans payable	–	16,107	16,107
Other liabilities	36,104	3,475	39,579
Total liabilities	202,915	19,582	222,497
Share capital and share premium			336,411
Reserves			(264,623)
Total equity	65,725	6,063	71,788
Total liabilities and equity	268,640	25,645	294,285

All assets and liabilities are attributable to business segments

Balance sheet as at 31 December 2006

	Rosemont Re Re-presented* $ 000	Other $ 000	Total Re-presented* $ 000
Assets			
Losses and loss adjustment expenses recoverable	132,497	–	132,497
Other assets	274,500	30,414	304,914
Total assets	406,997	30,414	437,411
Liabilities			
Losses and loss adjustment expenses			
– Catastrophe	168,070	–	168,070
– Other	105,482	–	105,482
Loans payable	–	20,901	20,901
Other liabilities	69,215	6,145	75,360
Total liabilities	342,767	27,046	369,813
Share capital and share premium			336,411
Reserves			(268,813)
Total equity	64,230	3,368	67,598
Total liabilities and equity	406,997	30,415	437,411

* The re-presentation is discussed in note 2 3

All assets and liabilities are attributable to business segments

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

5 Net investment income

	2007 $'000	2006 $ 000
Interest earned on cash and cash equivalents	**11,854**	13,591
Total net investment income	**11,854**	13,591

6 Other income

	2007 $ 000	2006 $'000
Deferred income from sale of GD2	**3,830**	7,730
War consortium commission	**1,233**	1,462
Other	**21**	–
Total other income	**5,084**	9,192

See note 16 for details on the sale of GD2

The war consortium commission has arisen through GK Consortium Limited, a 100% UK domiciled subsidiary, that managed a consortium to write war risks on behalf of certain syndicates at Lloyd's, including syndicate 102 The income recognised during the year relates to overriding and profit commission due to GK Consortium in respect of the 2002 year of account and represents the remaining income that can be expected from this source

7 Net losses and loss adjustment expenses

	2007 $'000	2006 $ 000
Losses and loss adjustment expenses paid and recovered		
– Paid	**105,295**	194,723
– Recovered	**(86,377)**	(21,905)
	18,918	172,818
Movement in provisions		
– Losses and loss adjustment expenses	**(106,741)**	(187,623)
– Losses and loss adjustment expenses recoverable	**88,111**	21,329
	(18,630)	(162,294)
Effect of foreign exchange movement	**(294)**	3,720
Total net losses and loss adjustment expenses	**(6)**	14,244

8 Net acquisition expenses

	2007 $ 000	2006 $ 000
Acquisition expenses	**1,540**	2,379
Movement in deferred acquisition expenses	**–**	4,999
Total net acquisition expenses	**1,540**	7,378

9 General and administrative expenses

	Notes	2007 $'000	2006 $ 000
Auditor's remuneration			
– audit work relating to the company		**215**	200
– interim review relating to the company		**80**	162
– audit work relating to auditing associates		**427**	887
Legal and professional fees		**1,543**	4,181
Depreciation on equipment		**79**	97
Outsourced costs		**4,835**	1,376
Administrative expenses		**1,421**	3,222
Staff costs and other employee related costs	10	**3,982**	5,923
Other		**36**	1,539
Total general and administrative expenses		**12,618**	17,587

The definition of associates includes subsidiaries The interim review for the prior year was conducted by Ernst & Young, the previous auditors Of the audit work within the comparatives, $620k relates to work by the current auditors, of which $200k relates to work on the company

10 Staff costs and other employee related costs

	2007 $'000	2006 $ 000
Fees and salaries		
– in respect of directors	**1,016**	895
– other	**1,837**	2,781
Payroll tax and social security costs	**176**	284
Pension costs	**136**	152
Other		
– share based compensation	**–**	1,532
– provision for retention and incentive award	**630**	–
– other	**187**	279
Total staff costs and other employee related costs	**3,982**	5,923

The average monthly number of employees of the group during the year, including executive directors, was 6 (2006 9)

For additional information concerning individual director's emoluments see the 'Directors' remuneration report All of the pension costs relate to Rosemont Re

The retention and incentive award is discussed further in the directors' remuneration report This is currently a provision and will not be paid until a distribution, or proceeds of a share offer, in excess of the contractual minimum, is paid to shareholders

11 Finance costs

	2007 $ 000	2006 $ 000
Interest expense on loans payable		
– amounts repayable in more than one year but less than two years	**1,371**	–
– amounts repayable in more than two years but less than five	**–**	5,363
Total finance costs	**1,371**	5,363

The interest payable on the loan under the facility agreement is payable at a rate of 2% above the London Inter-Bank Offered Rate ("LIBOR") for US$ Until 3 November 2008 $15m of the loan has been protected at 2% above 5 25% following the purchase of an interest rate cap From 1 May 2008 the rate is due to increase by 12 5% to 14 5% above US$ LIBOR

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

12 Income tax expense

	2007 $'000	2006 $ 000
Movement in deferred taxation	–	–
Over provision on prior year's tax charge	–	–
Total tax charge	–	–
Group profit/(loss) on ordinary activities before tax	**3,589**	(977)
Tax @ 28%/30%	**1,077**	(293)
Effects of		
(Profits)/losses arising overseas not subject to UK tax	**(449)**	1,674
Current year's losses not available for offset	**(628)**	(1,381)
Total tax charge	–	–

It should be possible to utilise the tax losses generated from the UK operations to the extent that there are future taxable profits in the UK group against which the losses can be set However, as no UK profits are anticipated no deferred tax asset is carried on the group's balance sheet in accordance with the accounting policy set out in note 2 4(i) Profits generated from Bermudian operations are not subject to UK corporation tax other than to the extent that they are remitted to the UK The deferred tax asset not carried was $1,706k (2006 $1,238k)

13 Basic and diluted earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders of the group by the weighted average number of ordinary shares outstanding at year end The basic and diluted earnings per share have been presented as being the same because the outstanding warrants discussed in note 22 were significantly below their exercise price and therefore would not have been dilutive

	2007 $'000	2006 $ 000
Basic and diluted earnings per share		
Net profit/(loss) after tax	**3,589**	(977)
At 1 January gross of EBT	**879,620,395**	175,924,079
Less held within EBT	**(2,262,273)**	(2,262,273)
Issued during the year	–	703,696,316
At 31 December net of EBT	**877,358,122**	877,358,122
Weighted average common shares outstanding	**877,358,122**	318,313,035
Basic and diluted net profit per share – cents	**0**	(0)

14 Losses and loss adjustment expenses recoverable

	2007 $ 000	2006 $ 000
Recoverable on paid losses	**30,452**	8,748
Recoverable on outstanding losses	**13,934**	123,749
	44,386	132,497

15 Reinsurance balances receivable

	2007 $'000	2006 Re-presented* $'000
Reinstatement premiums receivable	**6,401**	16,593
Other reinsurance balances receivable	**26,260**	39,093
	32,661	55,686

* The re-presentation is discussed in note 2 3

Other reinsurance balances receivable includes funds advanced to cedants in anticipation of claims becoming payable and drawdowns on letters of credit in excess of agreed claims

16 Other receivables

	2007 $'000	2006 Re-presented* $'000
Sale of GD2	**13,704**	9,873
War consortium commission	**–**	3,818
Other	**89**	583
	13,793	14,274

* The re-presentation is discussed in note 2 3

Under the terms of the sale of GD2, all but £750k of the consideration was deferred until the benefit of the transaction could be utilised by the purchasers As such benefit was expected to accrue in instalments over a period of at least two years, it was agreed that as the purchasers utilised the benefit so they would deposit a pre-agreed percentage of that benefit into escrow

The money cannot actually be released to the company from the escrow account until the benefit to the purchasers has become unconditional Technically the first tranche of the two, or more, tranches could have been received in the first quarter of 2008 and the second tranche in the first quarter of 2009 However, at the time of writing the first tranche has not been received but recent events suggest that most of it should have been received before the end of 2008

The company has assessed the value of the asset recognised by reference to the amounts paid into the escrow account Although further amounts may be paid into the escrow account by purchasers, the company cannot assess these additional amounts with any certainty, as it will be dependant on the circumstances of the purchasers

At 31 December 2007 the receipts into escrow, after adjusting for the time value of money based on when the asset is expected to be received, along with the related interest being earned on the balances, totalled $18,727k (2006 $13,745k) against which a provision of $5,023k (2006 $3,872k) is carried The provision aims to reflect the risk of non-recovery, and the costs associated with making a recovery

The other receivable arises through Goshawk Dedicated Limited, a 100% UK subsidiary, that underwrote as a corporate name on syndicate 1101 which is now in run-off but still has an open year

17 Prepaid expenses and other assets

	2007 $'000	2006 $'000
Prepaid expenses	**66**	–
Other assets	**113**	137
Total prepaid expenses and other assets	**179**	137

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

18 Cash and cash equivalents

	2007 $'000	2006 $'000
Available for use within the group	**7,745**	10,729
Held within a subsidiary and unavailable for use within the company	**195,370**	223,606
Total cash and cash equivalents	**203,115**	234,335

Of the cash and cash equivalents that are unavailable for use within the company, a significant portion is further restricted by being pledged as collateral for the specific claims obligations of Rosemont Re, see note 26(c)

19 Reserve for losses and loss adjustment expenses

	Note	2007 $'000	2006 $'000
Reserve for losses and loss adjustment expenses at 1 January		**273,552**	457,175
Losses and loss adjustment expenses recoverable at 1 January		**(132,497)**	(153,826)
Total net reserve at 1 January		**141,055**	303,349
Change in reserve for losses and loss adjustment expenses			
Gross amount		**(106,741)**	(183,623)
Reinsurance recoverable		**88,111**	21,329
Net change in reserve for losses and loss adjustment expenses	7	**(18,630)**	(162,294)
Total net reserves at 31 December		**122,425**	141,055
Loss and loss adjustment expenses recoverable at 31 December		**44,386**	132,497
Total reserve for losses and loss adjustment expenses		**166,811**	273,552

Loss development triangle

Rosemont Re's first year of underwriting was 2002 and so the group has elected to disclose only six years of claims experience data in its loss development triangles The disclosure will be extended for an additional year in each succeeding year until the requirement for 10 years of information has been satisfied

The tables show the projected ultimate claims for each successive underwriting year at each balance sheet date, together with cumulative paid claims as at the current balance sheet date at constant exchange rates

Ultimate claims by Underwriting year gross of reinsurance

	2002 $'000	2003 $'000	2004 $'000	2005 $'000	2006 $'000	2007 $'000
2002 underwriting year	65,942	129,635	221,625	165,166	158,698	**165,059**
2003 underwriting year		115,013	98,559	126,074	130,107	**128,557**
2004 underwriting year			58,625	104,485	113,200	**113,555**
2005 underwriting year				324,109	328,928	**322,317**
	65,942	244,648	378,809	719,834	730,933	**729,488**
Cumulative paid claims to date	(10,409)	(90,803)	(126,821)	(262,659)	(457,382)	**(562,677)**
Gross liability in the balance sheet	55,533	153,845	251,988	457,175	273,552	**166,811**

The movement shown on the 2002 underwriting year between 2004 and 2005 mainly relates to the accounting treatment of the reinsurance to close premium in respect of certain Lloyd's syndicates assumed through the Southern California Physicians Insurance Exchange ("SCPIE") reinsurances Separate to the premiums and claims reversals the remaining business was settled favourably

The deterioration on the 2003 underwriting year between 2004 and 2005 was largely due to the Harco bail bond losses

19 Reserve for losses and loss adjustment expenses – continued

The deterioration on the 2004 underwriting year between 2004 and 2005 was due to the need to strengthen the 2004 catastrophe reserves, particularly for hurricane Ivan and typhoon Songda The adverse movement between 2005 and 2006 was due to development on Harco

Ultimate claims by Underwriting year net of reinsurance

	2002 $ 000	2003 $ 000	2004 $ 000	2005 $ 000	2006 $'000	**2007 $'000**
2002 underwriting year	62,207	123,335	217,381	157,613	154,089	**161,265**
2003 underwriting year		114,489	98,201	125,196	129,229	**127,884**
2004 underwriting year			57,742	89,453	97,998	**98,405**
2005 underwriting year				186,459	187,928	**181,685**
	62,207	237,824	373,324	558,721	569,244	**569,239**
Cumulative paid claims to date	(10,409)	(90,803)	(126,821)	(255,372)	(428,190)	**(446,814)**
Net liability in the balance sheet	51,798	147,021	246,503	303,349	141,055	**122,425**

20 Reinsurance balances payable

	2007 $'000	2006 Re-presented* $ 000
Reinstatement premiums payable	**4,273**	16,642
Other reinsurance balances payable	**28,053**	48,523
	32,326	65,165

* The re-presentation is discussed in note 2 3

21 Loan payable

	2007 $'000	2006 $ 000
Amounts repayable in		
– in more than one year but less than two years	**16,107**	–
– in more than two years but less than five years	–	20,901
Total loans payable	**16,107**	20,901

On 1 January 2002 a letter of credit for £20m was provided by Barclays Bank plc, in favour of Lloyd's in respect of the subsidiary companies of the company underwriting as corporate members The letter of credit was secured by a charge over a £5m cash deposit, by a guarantee and a debenture from the company, and all subsidiary companies with the exception of Rosemont Re and GoshawK Security Insurance Limited, in respect of all the obligations of the group to the Bank in respect of the LOC The guarantee was amended to restrict the liability of GoshawK Syndicate Management Limited, a wholly owned subsidiary company, to Barclays Bank plc to £50,000 under this and the Term Loan Facility described below

On 24 December 2002 Barclays Bank plc made available to the company a syndicated term loan facility for $40m The facility was secured by a guarantee and a debenture over the company and all subsidiary companies, with the exception of Rosemont Re and GoshawK Security Insurance Limited, in respect of all the obligations of the company in respect of the facility On 2 April 2003 Credit Lyonnais SA (now Calyon) joined the syndicate and made available a further $25m Two scheduled principal repayments on the term facility of $13m were made in December 2003 and December 2004 but not the repayment scheduled for December 2005 and so the $39m balance was consequently in default

On 19 December 2003, following syndicate 102 being placed into run-off on 30 October 2003, the group reached agreement with Barclays Bank and Calyon to restructure the letter of credit facility, whereby, in the event of a drawdown, the obligation would be met through the conversion of the letter of credit into a loan repayable in two equal annual instalments in 2008 and 2009 The group made full provision against drawings by Lloyd's on the letters of credit at 31 December 2003

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

21 Loan payable – continued

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 its corporate member subsidiaries were released in their entirety to Lloyd's in settlement of the cash call In addition the £20m Letter of Credit Facility was also drawn down by Lloyd's The borrowing in respect of the Letter of Credit was £15m, the balance of £5m having been collateralised from the company's resources Borrowings under the letter of credit were to be repaid by not later than the end of 2009

On 30 January 2006, following an application to the BMA, £15m was released by Rosemont Re as a return of capital to repay the amount owing under the LOC drawdown described above

On 27 October 2006, following receipt of the funds from the rights issue undertaken in 2006, £0 8m and $24 7m were repaid in fulfilment of one of the conditions precedent contained within the renegotiated loan facility of 23 August 2006

Following completion of the work by the independent actuary on the position at 31 December 2006, it became possible that Rosemont Re might breach the covenant relating to its minimum level of net assets and so, after renegotiation, the covenant was amended on 16 April 2007

During the year ended 31 December 2007, following receipts deemed as 'surplus cash' under the renegotiated loan agreement, a total of $6 2m was repaid to the lending banks

The loans are repayable on 30 April 2009 The group is required to make early repayment at the end of each relevant year of any excess cash, being the amount (if any) for each financial year by which forecast expenditure exceeds actual and anticipated expenditure The interest payable on the loans is payable at a rate of 2% above the relevant London Inter-Bank Offered Rate on US$ Additional interest is payable at a rate of 12 5% on the average principal amount outstanding for the period from 1 May 2008 to 30 April 2009

The narrative above can be summarised as follows

	2007 £'000	2007 $ 000
August 2004 £ LOC facility drawn down	**20,000**	
August 2004 £ collateral drawn down	**(5,000)**	
January 2006 capital sum repaid	**(15,000)**	
October 2006 accrued interest	**808**	
October 2006 repayment made to fulfil condition of renegotiated loan	**(808)**	
Converted to US$ at year end rates	–	–
December 2002 $ term loan facility agreed with Barclays		**40,000**
April 2003 Calyon join syndicate		**25,000**
December 2003 first scheduled repayment made		**(13,000)**
December 2004 second scheduled repayment made		**(13,000)**
January 2006 working capital loan		**1,000**
August 2006 repayment		**(1,904)**
October 2006 repayment made to fulfil condition of renegotiated loan		**(23,200)**
Accrued interest at 31 December 2006		**6,005**
Position at 31 December 2006		**20,901**
January 2007 repayment		**(789)**
April 2007 repayment		**(2,197)**
July 2007 repayment		**(784)**
October 2007 repayment		**(2,395)**
Accrued interest for the year		**1,371**
Total loan payable		**16,107**

22 Derivative liability

Pursuant to some of the events included within note 20 above, the company issued "A" warrants in £ Sterling to the lenders participating in the credit facilities over 5,277,722 ordinary shares representing some 3% of its issued share capital at 18 December 2003 The warrants can be exercised at 35 25p, being the closing mid-market price of the shares on 18 December 2003 The company issued a further 1,759,240 "B" warrants, on 1 January 2005 The "B" warrants have an exercise price of 35 25p A further 1,759,240 "C" warrants were due for issue on 1 January 2006, these also had an exercise price of 35 25p as the credit facilities had not been repaid or terminated by 1 January 2006

The warrants have an anti-dilution protection in the event of a share reorganisation such as a rights issue that allows the exercise price to be adjusted to 22 21p The total warrants of 8,796,202 represent less than 1% of the shares in issue The warrants were exercisable as follows

5,277,722 "A" warrants were exercisable from 20 December 2003 to 23 January 2008
1,759,240 "B" warrants were exercisable from 1 January 2005 to 23 January 2008
1,759,240 "C" warrants were exercisable from 1 January 2006 to 23 January 2008

As the exercise price significantly exceeded the share price of the company at the year end, the fair value remained at nil No warrants had been exercised at 23 January 2008

23 Accounts payable and accrued liabilities

	2007 $'000	2006 Re-presented* $ 000
Accounts payable	**1,067**	2,887
Accrued expenses	**3,802**	4,933
Social security and other taxes	**112**	680
Provision for retention and incentive award	**630**	–
Other	**1,642**	1,695
Total accounts payable and accrued liabilities	**7,253**	10,195

* The re-presentation is discussed in note 2 3

24 Share capital

	2007 $ 000	2006 $ 000
Authorised share capital		
1,296,303,684 ordinary shares of 1p each	**24,566**	24,566
175,924,079 deferred shares of 4p each	**13,336**	13,336
	37,902	37,902
Issued share capital		
877,358,122 ordinary shares of 1p each	**16,049**	16,049
175,924,079 deferred shares of 4p each	**12,873**	12,873
	28,922	28,922

All shares issued are fully paid Of the issued shares, 2,262,273 (2006 2,262,273) are held within an employee benefit trust

At the EGM on 26 September 2006 the authorised capital was increased to £20,000,000 divided into 1,296,303,684 ordinary shares of 1p each and 175,924,079 deferred shares of 4p each by the creation of 750,000,000 ordinary shares of 1p each

703,696,316 new shares were issued via a 4 for 1 rights issued which closed on 18 October 2007 The rights issue raised $39 5m gross, and $37 1m net of expenses The balance of the capital raised, not including the share capital, $23 9m is included in share premium

See also the discussion of the warrants in note 21

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

25 Group undertakings
All direct subsidiaries operate in the United Kingdom, are incorporated in Great Britain and are registered in England and Wales, with the exception of GoshawK Security Insurance Limited, which is incorporated and operates in the Cayman Islands and GoshawK Holdings (Bermuda) Limited, which is incorporated and operates in Bermuda

Direct subsidiary	Principal activity	Proportion of ordinary shares held by the company
GoshawK Syndicate Management Limited*	Lloyd's underwriting agent†	100%
GoshawK Capital Limited	Corporate member holding company†	100%
GK Consortium Management Limited	Consortium manager†	100%
GoshawK Services Limited	Service company	100%
GoshawK Securities Limited	Management service company†	100%
GoshawK Underwriting Limited	Lloyd's service company†	100%
GoshawK Holdings (Bermuda) Limited	Bermudian holding company	100%

* In addition all of the redeemable preference shares are held by the company
† These companies ceased their principal activity during 2003

GoshawK Holdings (Bermuda) Limited was incorporated on 11 February 2004

Rosemont Reinsurance Limited, was incorporated and operates in Bermuda, and was a 100% subsidiary of the company until it was wholly transferred to GoshawK Holdings (Bermuda) Limited during 2005 for a consideration of $241m

GoshawK Dedicated Limited, the former parent of GoshawK Dedicated (No 2) Limited ("GD2"), was incorporated and operates in the UK and is 100% owned by the group through GoshawK Capital Limited GoshawK Dedicated Limited, still has two open years on syndicate 1101 through its role as a corporate member

The company had given a guarantee under a deed of covenant to Lloyd's in respect of GD2, a former subsidiary The total amount of the guarantee given by the company was £43,182,985 and Lloyd's had a fixed and floating charge over the assets of the company to support this covenant The company had also guaranteed a £20m letter of credit facility provided by Barclays Bank plc in favour of Lloyd's in respect, inter alia, of GD2 In the light of the underwriting losses suffered by GD2, the company provided against these guarantees during 2003

26 Contingencies and commitments
(a) Legal proceedings and regulations
The group operates in the reinsurance industry and is engaged in several ongoing disputes with ceding companies in the normal course of business

(b) Lease obligations

	2007 $ 000	2006 $ 000
Minimum lease payments for the following periods		
Paid during the year	**36**	325
Within one year	**106**	187
Within two to five years	**62**	197
	204	709

At the start of the year the group had two current lease obligations, one in London and one in Bermuda The London lease was assigned on 29 June 2007 to a third party and a premium received such that the costs were exceeded by $52k The on-going cost of office space is included within the outsource services provided The Bermuda lease was signed 1 June 2006 for three years at an annual rent of $103k, subject to a cost of living increase On 1 October 2007 a sub-lease was signed with another Bermuda company for one year

26 Contingencies and commitments – continued

(c) Collateralised funds

The group has given letters of credit and posted certain monies to escrow in the ordinary course of business The following indicates the collateral amounts as at year end

	2007 $'000	2006 $'000
Collateral posted for letters of credit		
– Comerica	**110**	15,755
– HSBC	**32,000**	60,000
SCPIE premium trust fund	**29,511**	36,686
Other monies in escrow or trust	**4,364**	14,136
Total value of collateral given	**65,985**	126,577

The HSBC letter of credit facility is non-revolving The SCPIE monies are held in trust by HSBC as security against Rosemont Re's future obligations to SCPIE The other monies contain $3 8m held in escrow to secure Rosemont Re's obligation to Harco

(d) Indemnity at Lloyd's

Following the sale of GD2 to a consortium, the company gave an indemnity to Lloyd's of $3 0m against any future US federal income tax that may become payable should GD2 make any future profits taxable in the US This indemnity has been fully provided for within the provision carried against GD2 of $6 6m

(e) Funds at Lloyd's

A fixed and floating charge over the company's investment portfolio and other cash assets together with letters of credit secured obligations to Lloyd's in respect of underwriting activities of corporate member subsidiaries The total guarantee given by the company under a deed of covenant was £43,182,985 The guarantee supported the corporate members' participations for the 1997 to 2003 years of account

On 6 August 2004, following a cash call by syndicate 102, the funds at Lloyd's held under a covenant and charge by the company to support the underwriting of its corporate member subsidiaries were released in their entirety to Lloyd's in settlement of the cash call In addition a £20m letter of credit facility (see note 21) was also drawn down by Lloyd's The total funding requirement that had recourse to the company of £63,182,985 ($108,788,464) had been provided for in the 31 December 2003 financial statements The company has received legal advice to the effect that its liability in respect of its corporate member subsidiaries under the covenant and charge cannot exceed £63,182,985 ($108,788,464) The directors of the company are of the opinion that, following the settlement of the cash call, it settled its full obligations to Lloyd's in respect of its corporate member liabilities

(f) Directors' bonuses

50% of the annual bonuses potentially due to the company's directors are deferred for two years and only due on publication of the accounts for the relevant year, so long as the company is still solvent at that stage and the directors are not bad leavers The value of this contingent liability is $418k (2006 $204k)

(g) Interest rate cap

On 10 October 2007 the company bought an interest rate cap with the Royal Bank of Scotland at the cost of $12 5k The cap protects the group against increases of the rate quoted for US$ LIBOR, on which the cost of the group loans is based The cap pays on a capital sum of $15m should US$ LIBOR rise above 5 25% between 1 November 2007 and 3 November 2008 At the balance sheet date the rate of US$ LIBOR is less than 5 25% and so the fair value of this cap is nil

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

27 Related party transactions
(a) Transactions with and balances from or to related parties
No such transactions took place during the year During 2006, Phoenix Asset Management Limited, the company's largest shareholder, made available a loan facility of up to GB£1m at an interest rate of 10% per annum The monies were repaid in full before the end of 2006 from the proceeds of the rights issue along with the interest of GB£41k that had accrued

(b) Compensation of key management personnel
Key management personnel of the group includes all directors, executive and non executive, and senior management, including senior management of Rosemont Re The summary of compensation of key management personnel for the year is as follows

	2007 $ 000	2006 $'000
Salaries and other short term employee benefits	**1,537**	2,797
Pension benefits	**118**	104
Total compensation of key management personnel	**1,655**	2,901

28 Significant post balance sheet events
There were no significant post balance sheet events

29 Risk management policies
(a) Governance framework
The primary objective of the governance framework is to protect the group from events that might hinder an orderly run-off of its reinsurance activities or the realisation of its non-reinsurance assets

The group has established a run-off plan for Rosemont Re documenting clear terms of reference for its board, a clear organisation structure and details of delegated authorities and responsibilities The boards of both Rosemont Re and the company have approved the run-off plan and meet regularly to approve any commercial, regulatory or organisational requirements as they arise

(b) Capital management framework
The group's capital management framework reflects the requirements of the relevant regulators Its principal asset, Rosemont Re is registered under the Bermuda Insurance Act 1978 ("the Act") and related regulations Under the Act Rosemont Re is required to maintain minimum statutory capital and surplus equal to the greater of $100m or 15% of the net reserve for losses and loss adjustment expenses For as long as Rosemont Re remains below the regulatory minimum it will have to seek regulatory approval before making any distribution or return of capital

As a consequence of the US hurricanes Rosemont Re was unable to meet the minimum statutory requirement and so was put into run-off on 18 October 2005 Subsequently, a run-off plan was established, a key component of which was the liquidation of its investments into cash and cash equivalents to avoid liquidity risk or losses on investments

The Bermuda Monetary Authority ("BMA") is investigating the application of a more actuarial basis for the setting of minimum solvency requirements, referred to as Enhanced Capital Requirements ("ECR") Returns for the calculation of these have to be filed for the year ended 31 December 2007 However, as Rosemont Re's surplus remains below $100m it is not anticipated that it would be able to make any return of capital on the basis of the current ECR

The group regards its capital as being the sum of its share capital, share premium and retained losses and does not have any more complex instruments such as subordinated debt or cash flow hedges and this approach has been consistent over the current and prior year As discussed in the first paragraph, an externally imposed capital requirement exists over Rosemont Re, to maintain a surplus of at least $100m, and this was not complied with throughout the period

29 Risk management policies – continued

The group's strategy for holding cash is to preserve capital and to retain the ability to make timely commutation settlements

(c) Regulatory framework

The group operates within the regulatory framework of the United Kingdom Listing Authority ("UKLA"), the Financial Services Authority ("FSA") and the Bermuda Monetary Authority ("BMA")

(d) Underwriting risk

Prior to going into run-off Rosemont Re primarily underwrote a book of property and marine reinsurance business, mainly on an excess of loss basis However, Rosemont Re also underwrote certain long-tail casualty risks and satellite exposures on both a proportional and an excess of loss basis The casualty risks include workers' compensation and workers' compensation occupational accident carve-out risks The proportional business also included underlying exposures to viatical risks which are currently subject to dispute between our cedant and the underlying reinsured

Analysis of the reserve for losses and loss adjustment expenses gross and net of reinsurance recoverables

	2007 Gross $'000	2007 Recoverable $'000	2007 Net $'000
Catastrophe	**82,248**	**(39,919)**	**42,329**
Other	**84,563**	**(4,467)**	**80,096**
Reserve for losses and loss adjustment expenses	**166,811**	**(44,386)**	**122,425**

	2006 Gross $'000	2006 Recoverable $'000	2006 Net $'000
Catastrophe	168,070	(127,010)	41,060
Other	105,482	(5,487)	99,995
Reserve for losses and loss adjustment expenses	273,552	(132,497)	141,055

The gross reserves contain a provision for unallocated loss adjustment expenses This provision is calculated across the book and allocated equally across the two categories The recoverable balance is shown after a provision for bad debt which is allocated entirely to the catastrophes

(e) Reserving risk

The estimate of ultimate liabilities requires significant judgment The following outlines the nature of the significant judgments involved in establishing such estimates and certain industry and company specific factors that further add to the complexity and subjectivity of the reserving process

i The group's independent actuary projects current values for paid and reported losses to their ultimate value using a number of alternative actuarial methods that reflect historical paid and reported loss development experience and, for some methods, an expectation of underwriting profitability independent of actual loss experience Rosemont Re was only in operation for 4 years and so has very limited historical paid and reported loss development to serve as a reliable basis for estimating ultimate losses As such, the independent actuary has to rely on industry loss experience for each line of business which may or may not be fully representative of the business written by Rosemont Re Further, each estimation method may result in a materially different projection of ultimate losses compared to another estimation method The weights assigned to each estimation method are judgmentally determined by the independent actuary and will vary over time Greater weight will be placed on Rosemont Re's historical paid and reported loss experience in the future as that data becomes more mature and reliable for making projections,

ii Losses and loss adjustment expenses arising from Rosemont Re's catastrophe exposures, in particular hurricanes Katrina, Rita and Wilma, are inherently difficult to estimate because of the severity of the events, their relatively recent occurrence and because, to a certain extent, the magnitude of such events is unprecedented,

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

29 Risk management policies – continued

iii Uncertainty in the catastrophe related reserve estimates is increased by recent litigation in connection with hurricane Katrina Such litigation relates primarily to the interpretation of flood exclusion language in underlying policies that cover property damage, although we are aware that there may be other claims for bad faith, etc So far, the awards have generally confirmed the reliance on such exclusions, however, the courts have differentiated between flood caused by the storm itself and "man made" flood as a result of the poor construction of levees that failed to withstand the storm surge Further, the courts have often put the onus on the insurers to prove the allocation of loss pertaining to wind vs flood There is a further litigation pending and, of course, all cases are subject to appeal At this stage, it is too early for Rosemont Re to determine the potential impact on its current reserve for losses and loss adjustment expenses The potential impact on Rosemont Re's catastrophe reserve estimates is exacerbated by the fact that significantly all of its reinsurance protection is exhausted,

iv While the reserving process is difficult and subjective for insurance companies, the inherent uncertainties of estimating such reserves are even greater for reinsurers such as Rosemont Re due primarily to (a) the additional lag in reporting loss information by the insurance company to their brokers and onto the reinsurers (and possibly by those reinsurers to their own reinsurers), (b) the necessary reliance on the ceding companies for information regarding reported claims, (c) differing reserving practices among ceding companies, and (d) the diversity of loss reporting and payment patterns among different types of reinsurance contracts or lines of business,

v Our long-tail lines of business include excess workers' compensation and occupational accident risks and viatical exposures where specific losses may not be reported for a considerable period of time and the final settlement of the loss may take even longer, in some cases in excess of 20 years after the loss event,

vi Inherent in the estimates of ultimate losses are expected trends in claim severity and frequency and other factors which could vary significantly as claims are settled Our long-tail business lines have extended loss settlement periods and so additional facts regarding claims will become known and circumstances may change throughout such period, for example, changing government regulations, newly identified toxins, newly reported claims, new theories of liability, new contract interpretations and other factors could significantly affect future loss emergence and the ultimate costs of settling claims,

vii Rosemont Re is engaged in several ongoing disputes with ceding companies in the normal course of business Rosemont Re continues to reserve for losses and loss adjustment expenses on all disputed contracts without regard to the possibility of a favourable outcome However, the uncertainty surrounding such estimates is increased by the fact that Rosemont Re may not have received current loss information from the ceding company during the period of the dispute and may not have had the opportunity to audit or otherwise review the reliability of such reported information

The group recognises resinsurance recoveries when the associated loss is incurred Rosemont Re has recorded amounts recoverable from reinsurers of $44 4m (2006 $132 5m) at 31 December 2007 Such amounts are calculated in a manner consistent with the underlying liabilities Rosemont Re remains liable to the extent that the reinsurance companies fail to meet their obligations and so allowances are established for amounts deemed uncollectable Rosemont Re regularly evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimise its exposure to significant losses from reinsurer insolvencies

While the group has recorded its current 'best estimate' of its liabilities for unpaid losses and loss adjustment expenses, it is reasonably possible that these estimated liabilities may increase or decrease in the future and that the increase or decrease may be material to the results of operations and the solvency position of Rosemont Re Adjustments to the amounts of the provisions are recorded in the year in which they are determined

29 Risk management policies – continued

Having reviewed all the lines of business, the independent actuary provides a best estimate, on which the group bases its reserves, of the likely ultimate cost of the portfolio The group considers a 'best estimate' to be one that has an equal likelihood of developing a redundancy or deficiency as the loss experience matures The independent actuary also develops a range of estimated ultimate losses as well as a best estimate for each program or line of business and selects a low estimate and a high estimate for the total book of business after allowing for potential diversification effects across various lines of business In the case of Rosemont Re the resulting low and high estimates were $25m below and $18m above the group net reserves of $122m (2006 $141m) The range of estimated liabilities is provided in an attempt to quantify some of the uncertainty in estimating ultimate losses and does not present the bounds of all possible outcomes

In respect of the US hurricanes, each 1% of deterioration in the group reserves is expected to cost the group about $0 9m (2006 $1 7m) on a gross basis and because the reinsurance in place is largely eroded by the current reserves, any future deterioration is likely to result in a direct reduction of group net asset value as though gross equated to net

There are further reserves established for the legacy issues underwritten prior to 1 January 2004 including a number of material contracts such as reinsurances of SCPIE, Harco (primarily bail bonds), Everest Re (a qualifying quota-share reinsurance of the prior managed Syndicate 102) and RMG (workers compensation) The biggest of these is the Southern California Physicians Insurance Exchange ("SCPIE") which had sought to portfolio transfer their non-core writings to another carrier Whilst careful analysis has been undertaken to assess the likely level of loss ultimately sustained, any of these legacy issues have the potential for further deterioration A 10% deterioration in the other reserves set would result in additional losses of $7 3m There is no certainty that any deterioration would be limited to this level or that only a single contract would be found to be deficient in reserves

Analysis by duration of expected maturity of reserve for losses and loss adjustment expenses

	2007 Total $'000	Within 1 year $'000	2-5 years $'000	Beyond 5 years $'000
Catastrophe	**82,248**	**(57,241)**	**(25,007)**	**–**
Other	**84,563**	**(27,979)**	**(45,320)**	**(11,264)**
Reserve for losses and loss adjustment expenses	**166,811**	**(85,220)**	**(70,327)**	**(11,264)**

	2006 Total $'000	Within 1 year $'000	2-5 years $'000	Beyond 5 years $'000
Catastrophe	168,070	(99,269)	(60,118)	(8,683)
Other	105,482	(27,982)	(23,185)	(54,315)
Reserve for losses and loss adjustment expenses	273,552	(127,251)	(83,303)	(62,998)

This analysis of expected maturity is produced on the basis of market benchmarks for this type of business and does not try to reflect any commutations that may occur and which would usually accelerate maturity

Risk factors relating to the US hurricanes within the catastrophe reserves

The group adopts the following risk factors in analysing its exposures

(a) due to the complex nature of the claims expected to arise as a result of the US hurricanes there can be no certainty as to the ultimate liabilities and losses which will result to the group It may be a number of years before the precise nature and scale of the claims will be known,

(b) the assumptions used may ultimately prove to be incorrect and/or the methodology may prove to be inappropriate,

(c) the full extent of business interruption losses which will be paid under direct property policies remains uncertain,

(d) the process of establishing estimates of losses emanating from inwards reinsurance business is more subjective than establishing estimates of losses from direct insurance business This is because (particularly in the period immediately following the loss) less reliance can be placed upon loss information which is received via reinsured companies than upon information received directly from insureds,

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

29 Risk management policies – continued

(e) allowance has been made in the estimation of losses for the late reporting of losses which has been caused, in the case of Hurricane Katrina, by the inability of insureds to return promptly to their properties, and in the case of Hurricane Rita, by the unavailability of offshore loss adjusters It will be some time before losses are more fully reported and it is possible that the full effect of the delayed reporting has not been taken into account in the group's current estimates,

(f) it is possible that further legal action may be pursued either by individuals or on a class action basis or by various state authorities in an attempt to render the intention and effect of flood exclusions in insurance policies covering properties affected by the US Hurricanes null and void Should such action be successful then this would be likely to have an adverse impact on the amount of the net loss currently estimated, and

(g) in calculating the net loss, consideration has been given to the ability and willingness of reinsurers to pay the recoveries which will fall due from them in respect of the US hurricanes, and to whether the establishment of any provision for potential bad debt is therefore appropriate The failure of any reinsurer to pay recoveries over and above any such bad debt provision could have an adverse impact on the group's result and net asset value

(f) Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss Credit risk can arise on both the reinsurance and investment activities

Reinsurance activities

Original premiums – credit risk only applies during the grace period specified in the policy document, on the expiry of which the policy may be terminated if the premium is still outstanding As Rosemont Re is in run-off the exposure to premiums has fallen over time and is considered to be negligible

Reinstatement premiums – these are always less than the inward claims in respect of which they are due and enjoy the benefit of off-set against the original claim

Loss and loss adjustment expenses recoverable – are the biggest credit risk for the group especially in the wake of the US hurricanes The following table provides information regarding the credit risk exposure of the group at 31 December 2007 by classifying loss and loss adjustment expense recoverable according to credit ratings of the counterparties The primary rating source is Standard & Poor's Corporation ("S&P") and AAA is the highest possible rating

Losses and loss adjustment expenses recoverable and reinsurance balances net of balances past due and impaired analysed by Standard & Poor credit rating

	2007 $'000	2006 $ 000
AA	**629**	2,250
AA–	**9,978**	40,231
A	**11,249**	26,464
A–	**16,215**	45,797
BBB+	**6,316**	17,755
Losses and loss adjustment expenses recoverable	**44,386**	132,497
Reinstatement premiums receivable	**6,401**	16,593
A+	**5,210**	6,824
A–	**9,490**	5,634
A	**4,593**	7,721
NR	**1,462**	5,455
Other	**2,877**	2,727
Funds withheld	**23,632**	28,361
A+	**–**	815
A	**–**	657
B+	**–**	3,188
Other	**–**	7,639
Assumed balances receivable	**–**	12,299
	74,419	189,750

29 Risk management policies – continued

At 31 December 2007 $6,790k (2006 $3,401k) in respect of reinsurance balances were considered to be past due, in that they had been outstanding for over a year

At 31 December 2007 $8,500k (2006 $7,000k) in respect of the amounts recoverable on outstanding losses and reinsurance balances were considered to be impaired

No actual collateral is held against any reinsurer, however, balances are shown gross of the associated reinstatement premium that is due on any recovery and which enjoys the right of set-off in each case At 31 December 2007 $4,273k (2006 $16,642k) were payable, see note 20

Investment activities

Prior to the end of 2005 the group elected to limit its credit exposure by holding all of its investments as cash Then during 2006 the company elected to limit its credit exposure by placing some of its deposits with Lloyds TSB in recognition of its AAA rating The institutions holding the group's cash are set out below

Cash and cash equivalents by deposit taken

	2007 $'000	2006 $ 000
HSBC plc	**186,812**	188,261
Comerica inc	**642**	26,229
BB&T inc	**3,832**	3,703
RBS plc	**5,729**	10,729
Lloyds TSB plc	**2,016**	–
Other	**4,084**	5,413
	203,115	234,335

(2) Liquidity risk

Analysis by duration of expected maturity of the assets and liabilities within the balance sheet

	Total $'000	Within 1 year $'000	2-5 years $'000	Beyond 5 years $ 000
Losses and loss adjustment expenses recoverable	44,386	29,117	15,269	–
Reinsurance balances receivable	32,661	29,234	3,427	–
Other receivables	13,882	8,205	5,677	–
Other assets	241	241	–	–
Cash and cash equivalents	203,115	203,115	–	–
	294,285	269,912	24,373	–
Reserve for losses and loss adjustment expenses	166,811	85,220	70,327	11,264
Reinsurance balances payable	32,326	29,308	3,018	–
Loans payable	16,107	–	16,107	–
Other liabilities	7,253	7,253	–	–
	222,497	121,781	89,452	11,264

Of Rosemont Re's liquid assets of $191m, $34m are pledged as collateral against specific claims obligations and $32m to support its letter of credit facility, see note 25(c)

None of the $191m of cash and cash equivalents held by Rosemont Re is available for use outside of Rosemont Re without the prior consent of the BMA, see note 28(b)

(3) Currency risk

The group's cash and cash equivalents are primarily denominated in the same currencies as its liabilities, which mitigates much of the foreign currency exchange rate risk Consistent with IAS 21 'The effects of foreign exchange rates' the share capital and share premium accounts are fixed at the rates prevailing at the date of conversion to US$

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

29 Risk management policies – continued

The additional share capital and share premium paid in pursuant to the rights issue was converted at the rate of 1 79 prevailing at the time

Analysis by underlying currency of US$ denominated and non-US$ denominated assets and liabilities

	US$ denominated $'000	Non-US$ denominated $'000	2007 Total $'000
Assets	**256,282**	**38,003**	**294,285**
Liabilities	**(204,631)**	**(17,866)**	**(222,497)**
Equity	**51,651**	**20,137**	**71,788**

	US$ denominated Re-presented* $'000	Non-US$ denominated $'000	2006 Total Re-presented* $ 000
Assets	395,251	42,160	437,411
Liabilities	(348,652)	(21,161)	(369,813)
Equity	46,599	20,999	67,598

* The re-presentation is discussed in note 2 3

For both assets and liabilities the majority of the non-US$ denominated items are held in GB£ The share capital and contributed surplus of Rosemont Re are held entirely in US$ Therefore, the value of any return of capital, should one be made, to shareholders is exposed to a weakening of the US$ Were the US$ to weaken by 10% this would reduce the potential funds returned to shareholders by $2 5m

(4) Interest rate risk

Interest rate risk is the risk that, because of changes in interest rates, the group's investment income may fall or cost of borrowings rise As the group does not discount any of its assets or liabilities, with the exception of GD2, changes in the interest rate would not effect the carrying value of those balance sheet items An increase of 5% to the discount rate applied to GD2 would reduce its value in the balance sheet by $0 4m

On the year end cash balances of $203m, a 25 basis point reduction in the US Federal Reserve Rate would reduce investment income by $0 5m per annum As all of the cash and cash equivalents have maturity periods of 90 days or less, any rate cuts will have an almost immediate effect Conversely, on year end borrowings of $16m, a 25 basis point increase in the US$ LIBOR would cost the group an additional $0 1m per annum The maximum additional cost to which the group is exposed has been limited by an interest rate cap bought during the year and discussed within note 25(g)

As the borrowings reside in a different subsidiary from the investments and the movement of funds within the group is severely restricted the losses resulting from a rate increase could not be offset at a subsidiary level and so would place significant solvency strain on the group For this reason the company bought the interest rate cap on 27 October 2007, discussed above

PARENT COMPANY FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSHAWK INSURANCE HOLDINGS PLC

We have audited the parent company financial statements of Goshawk Insurance Holdings PLC for the year ended 31 December 2007 which comprise the balance sheet and the related notes 1 to 14 These parent company financial statements have been prepared under the accounting policies set out therein

We have reported separately on the group financial statements of Goshawk Insurance Holdings PLC for the year ended 31 December 2007 and on the information in the directors' remuneration report that is described as having been audited That report is modified by the inclusion of emphases of matter paragraphs

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 parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company 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 parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the directors' report is consistent with the parent company financial statements The information given in the directors' report includes that specific information presented in the chairman's and chief executive's statement that is cross referred from the enhanced business review section of the directors' report

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 other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements The other information comprises only the directors' report and the chairman's and chief executive's statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any further information outside the annual report

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 parent company financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company 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 parent company 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 parent company financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOSHAWK INSURANCE HOLDINGS PLC – continued

Opinion
In our opinion

- the parent company 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 2007,
- the parent company 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 parent company financial statements

Emphasis of matter – Going Concern
Without qualifying our opinion, we draw attention to the disclosures in note 1 to the accounts concerning the ability of the company to continue as a going concern In note 1 the directors have described the restrictions surrounding the company's working capital and the fact that the successful completion of any mitigating actions is uncertain These conditions indicate the existence of a material uncertainty which may also cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

Deloitte & Touche LLP
Chartered accountants and registered auditors
London, United Kingdom

24 April 2008

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2007

	Notes	2007 $'000	2006 $ 000
Fixed assets			
Investments	4	**36,834**	40,145
Current assets			
Debtors	5	**47,458**	37,609
Cash at bank and in hand		**9,502**	10,729
Net current assets		**56,960**	48,338
Total assets		**93,794**	88,483
Creditors: amounts falling due within one year			
Other creditors	7	**11,732**	10,904
Accruals	7	**1,557**	1,707
Current liabilities		**13,289**	12,611
Total assets less current liabilities		**80,505**	75,872
Creditors amounts falling due after more than one year			
Loans payable	8	**8,717**	8,274
Net assets		**71,788**	67,598
Capital and reserves			
Share capital	9	**28,922**	28,922
Share premium	10	**307,489**	307,489
Reserve for own shares	10	**–**	–
Profit and loss account	10	**(264,623)**	(268,813)
Shareholders funds		**71,788**	67,598

The accounting policies and notes on pages 47 to 50 are an integral part of these financial statements

The financial statements were approved and authorised for release by the board of directors on 24 April 2008 and were signed on its behalf by

MG Dawson
Chief executive

PJ Dixon-Clarke
Finance director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Going concern
GoshawK Insurance Holdings plc (the "company") has no trading income and so has only the residual proceeds of the recent rights issue to provide working capital Other than in respect of its UK subsidiaries the company cannnot expect to receive distributions from within the group because the statutory solvency of Rosemont Re, its principal subsidiary, has fallen below the minimum level required of it by its regulator, the Bermuda Monetary Authority ("BMA"), and so it will require specific consent before making any distributions There can be no certainty that the BMA would agree to such a distribution

The independent actuary has produced a range of reserves for Rosemont Re and this year, the actuary's resulting range from low to high estimates has reduced from $91m last year to $43m this year The range is provided in an attempt to quantify some of the uncertainty in estimating ultimate losses and does not present the bounds of all possible outcomes Any increases in the expected ultimate cost of Rosemont Re's claims will reduce the likelihood of the BMA agreeing to any return of capital prior to full run-off of all its outstanding liabilities

Furthermore, under the terms of the facility agreement renegotiated with lenders on 23 August 2006, Rosemont Re is required to maintain a minimum level of net assets Following the work by the external actuary on the reserves of Rosemont Re at 31 December 2006, it was recognised that the net asset value of Rosemont Re might fall below the covenanted level requiring an amendment that was granted by the lending banks on 16 April 2007 An increase of no more than 3 5% of the gross liabilities ($5 8m) of Rosemont Re would cause the group to breach its covenant

Additional interest is payable at a rate of 12 5% on the average principal amount outstanding from 1 May 2008 to 30 April 2009 This increase will place additional strain on group resources

Despite the uncertainty arising from the above matters, and having considered the likelihood of success of the possible options available, including if necessary the sale of Rosemont Re, the directors are satisfied that the group is currently a going concern and that the preparation of these accounts on that basis is appropriate

If the financial statements had not been prepared on a going concern basis it would have been necessary to make adjustments to the carrying value of the assets of the company It would also be necessary to accrue for winding up costs The financial statements do not include any such adjustments

2 Accounting policies
The requirement to adopt International Financial Reporting Standards ("IFRS") for the year ended 31 December 2007 does not yet apply to the company accounts and so they continue to be prepared under UK GAAP The company has applied the historical cost convention, modified to include the revaluation of fixed asset investments, in accordance with Section 226 Schedule 4 to the Companies Act 1985

(a) Basis of preparation
No profit and loss account is presented for the company as permitted by Section 230 of the Companies Act 1985 The company is taking advantage of the FRS29 2d exemptions on disclosures as a result of it being included within the consolidated group accounts

(b) Exchange rates
Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of transactions At the balance sheet date, monetary assets and liabilities are translated at the year end rates of exchange Exchange profits or losses arising from transactions are taken to the profit and loss account

(c) Investments
Shares in subsidiary undertakings are shown at net asset value, which is deemed to approximate to the amount recoverable Permanent diminutions have been charged to the profit and loss account

(d) Loans payable
Loans payable are stated at cost

(e) Derivative liability
The warrants and potential warrants issued to the company's lenders under its credit facilities have been classified as derivative and embedded derivative liabilities respectively The warrants and potential warrants will be classified as derivative liabilities until such time as they expire or that they are settled by a delivery of shares As the exercise price significantly exceeded the share price of the company at the year end, the fair value remained at nil

NOTES TO THE COMPANY FINANCIAL STATEMENTS

2 Accounting policies – continued

(f) Own shares
The cost of providing equity compensation plans is based on the fair value of share awards at the date of grant The cost is charged to the profit and loss account over the expected vesting period of the awards and credited to the reserve for own shares, part of shareholders' funds

(g) 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 a right 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, and
- deferred tax assets are recognised only to the extent that the directors consider that it 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

(h) Operating leases
Rentals payable under operating leases are charged on a straight line basis over the term of the lease

3 Dividends
No dividends were declared in either 2007 or 2006

4 Investments in subsidiary undertakings
The table below shows the carrying value and cost of these investments as at the dates indicated All investments are held at current net asset value unless otherwise indicated

	2007 $'000	2006 $ 000
Cost of investments at 1 January and 31 December	**241,499**	241,499
Value of investments at 1 January	**40,145**	41,303
Impairment loss charged to profit and loss	**(3,311)**	(1,158)
Value of investments at 31 December	**36,834**	40,145

Further details of subsidiaries are disclosed within note 24 of the group accounts

5 Debtors

	2007 $ 000	2006 $ 000
Amounts due from Goshawk Holdings (Bermuda) Ltd	**32,125**	25,785
Amounts due from other group undertakings	**40**	1,366
Sale of GD2	**13,704**	9,873
Other debtors	**1,689**	585
	47,458	37,609

The amounts due from GoshawK Holdings (Bermuda) Limited reflect amounts paid to the lending banks in order to redeem the group loan, see note 21 of the group accounts

The sale of GD2 is discussed in note 16 of the group accounts

6 Deferred taxation

It should be possible to utilise the tax losses generated to the extent that there are future taxable profits against which the losses can be set However, given that the company has no income of its own and cannot anticipate dividend payments from any of its investments, no deferred tax asset is carried on the group's balance sheet in accordance with the accounting policy set out in 2(g) The potential deferred tax asset is $1,706k (2006 $1,238k) arising primarily from the impairment loss of the company's investments

7 Other creditors and accruals

	2007 $'000	2006 $ 000
Amounts falling due within one year		
Other creditors	**9**	1,190
Amounts due to group undertakings	**11,723**	9,714
Accruals	**1,557**	1,707
	13,289	12,611

The amounts due to group undertakings are unsecured, interest free and cannot be called without the written agreement of the company

8 Loans payable

	2007 $'000	2006 $ 000
Amounts falling due		
In more than two years but not more than five years	**8,717**	8,274
Amounts falling due after more than one year	**8,717**	8,274

During 2006 all inter-company balances due to Rosemont Re were formalised into a loan, repayable not before three years (and then only subject to the company having sufficient working capital) at an accrued rate of interest of 5 5% per annum

9 Share capital

	2007 $'000	2006 $ 000
Authorised share capital		
1,296,303,684 ordinary shares of 1p each	**37,902**	37,902
175,924,079 deferred shares of 4p each	–	–
Issued share capital		
877,358,122 ordinary shares of 1p each	**28,922**	28,922

All shares issued are fully paid Of the issued shares, 2,262,273 (2006 2,262,273) are held within an employee benefit trust

At the EGM on 26 September 2007 the authorised capital was increased to £20,000,000 divided into 1,296,303,684 ordinary shares of 1p each and 175,924,079 deferred shares of 4p each by the creation of 750,000,000 ordinary shares of 1p each

703,696,316 new shares were issued via a 4 for 1 rights issued which closed on 18 October 2006 The rights issue raised $39 5m gross, and $37 1m net of expenses The balance of the capital raised, not including the share capital, $23 9m is included in share premium

See also the discussion of the warrants in note 21 of the group accounts

NOTES TO THE COMPANY FINANCIAL STATEMENTS

10 Shareholders' funds
For the year ended 31 December 2007

	Share capital $'000	Share premium $'000	Reserve for own shares $'000	Profit & Loss $'000	Total $'000
At 1 January 2007	**28,922**	**307,489**	**–**	**(268,813)**	**67,598**
Profit for the year	**–**	**–**	**–**	**4,190**	**4,190**
At 31 December 2007	**28,922**	**307,489**	**–**	**(264,623)**	**71,788**

	Share capital $'000	Share premium $'000	Reserve for own shares $'000	Profit & Loss $'000	Total $'000
At 1 January 2006	15,745	283,584	(1,335)	(269,309)	28,685
Profit for the year	–	–	–	1,831	1,831
Write off share based compensation	–	–	1,335	(1,335)	–
Rights issue	13,177	23,905	–	–	37,082
At 31 December 2006	28,922	307,489	–	(268,813)	67,598

11 Guarantees given by the company
See notes 21 and 26 within the group accounts

12 Share option schemes
All options granted under both the approved and unapproved scheme are considered to have lapsed

13 Leasing commitments
Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2007 $'000	2006 $'000
Operating leases which expire		
Within 1 year	**–**	136
		136

14 Significant post balance sheet events
There were no significant post balance sheet events

DIRECTORS AND ADVISORS

Board of directors

RP Macnamara	Chairman
MG Dawson	Chief Executive
PJ Dixon-Clarke	Finance director
R Canham	Non-executive director

Company secretary
Capita Company Secretarial Services Limited
Beaufort House
51 New North Road
Exeter
EX4 4EP

Auditors
Deloitte & Touche LLP
London
United Kingdom

Broker to the company
Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

Bankers
Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
EH2 2YB

Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Lloyds TSB Bank plc
25 Gresham Street
London
EC2V 7HN

Barclays Bank plc
54 Lombard Street
London
EC3V 9EX

Registrar
Capita Group plc
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Registered office
Beaufort House
51 New North Road
Exeter
EX4 4EP

Place of business
1 Great Tower Street
London
EC3R 5AA
Telephone No 020 7499 2355
Facsimile No 020 7491 7247
Website www goshawk co uk

Registered number
2517324