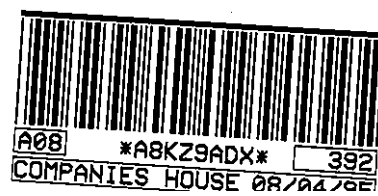


MASTHEAD E LIMITED

Registered Number: 2864625

**DIRECTORS' REPORT AND ACCOUNTS
FOR THE PERIOD ENDED 31ST DECEMBER 1994**



MASTHEAD E LIMITED

REPORT OF THE DIRECTORS

The directors present their Report and Audited Accounts for the period ended 31st December 1994.

Business review

The Company was incorporated as a private company in England and Wales on 15 October 1993.

The Company, which is a wholly owned subsidiary of Masthead Insurance Underwriting plc, was elected a Corporate Member of The Society of Lloyd's with effect from 1st January 1994. The 1994 underwriting year, the first account in which the Company participated, is scheduled to close on 31st December 1996.

The Company made neither a profit nor a loss for the period.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors who served during the period are shown below:

	APPOINTED	RESIGNED
Mr D J Dwyer	15.10.93	15.10.93
Mrs B J Doyle	15.10.93	15.10.93
Mr P D Hill-Wood	15.10.93	Current
Mr M F Heathcoat Amory	15.10.93	Current
Sir Jeffery Bowman	02.11.93	Current
Sir Ewen Fergusson	02.11.93	Current
Mr W A C Thomson	17.02.94	Current

None of the directors has a service contract with the Company.

Sir Ewen Fergusson is also a non-executive director of Murray Lawrence Members' Agency, which is the Members' Agent of the Company.

Mr P D Hill-Wood is also a non-executive director of Hambros Bank Limited, the Investment Manager of the ultimate parent company.

No contracts existed during or at the end of the period in which any other director of the Company is or was materially interested.

According to the Register of Directors' Interests, no director holding office at 31st December 1994 had any beneficial interest in the shares of the Company during the year.

The directors currently in office, namely Mr P D Hill-Wood, Mr M F Heathcoat Amory, Sir Jeffery Bowman, Sir Ewen Fergusson and Mr W A C Thomson, are directors of Masthead Insurance Underwriting plc, the ultimate parent company.

The interests of Sir Jeffery Bowman, Mr M F Heathcoat Amory and Mr P D Hill-Wood in shares of Masthead Insurance Underwriting plc are recorded in the accounts of that company.

Accounting Year-end

The accounting year-end of the Company is 31st December. This presents no difficulties so long as there are no underwriting results to incorporate in the accounts, but when the 1994 underwriting account closes at 31st December 1996, it will not be until 30th April 1997 before underwriting results are available to incorporate in the accounts of the Company. It is therefore the intention of the Company to change the year end to 30th June for that year.

Auditors

It is the intention of the Company to pass a resolution in accordance with sections 381A and 386 of the Companies Act 1985, dispensing with the requirement to re-appoint auditors annually. Coopers & Lybrand will remain as the Company's auditors until the elective resolution is revoked.

Statement of Directors' Responsibilities

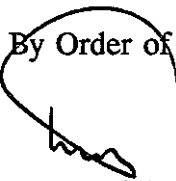
The following statement, which should be read in conjunction with the Report of the Auditors, is made to distinguish the responsibilities of the directors for the financial accounts from those of the Auditors.

The directors are required by UK company law to prepare financial accounts which give a true and fair view of the state of affairs of the Company at the end of the financial period and of the profit for the period.

The financial accounts must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition the directors are required to: (a) select suitable accounting policies and apply them consistently; (b) make judgements and estimates that are reasonable and prudent; (c) state whether applicable accounting standards have been followed; and (d) prepare financial accounts on a going concern basis unless it is inappropriate to assume the Company will continue in business. The directors confirm that the financial accounts comply with the above requirements.

The directors are also responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial accounts comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



P L Patrick
Secretary

24 January 1995

REPORT OF THE AUDITORS

to the members of Masthead E Limited

We have audited the accounts on pages 4 to 7.

Respective Responsibilities of Directors and Auditors

As described on page 2 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examinations, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31st December 1994 and of its profit for the period from 15th October 1993 to 31st December 1994 and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
London

24 January 1995

PROFIT AND LOSS ACCOUNT

for the period from 15th October 1993 (date of incorporation) to 31st December 1994

	£
REVENUE - CONTINUING ACTIVITIES	
Underwriting results	-
EXPENSES - CONTINUING ACTIVITIES	-
	<hr/>
PROFIT ON ORDINARY ACTIVITY	-
	<hr/>

The notes on pages 6 to 7 form part of this profit and loss account.

BALANCE SHEET AS AT 31ST DECEMBER 1994

	£
Cash at Bank and in hand	<u>£1,000</u>
Represented by:-	
Share Capital	<u>£1,000</u>

The accounts were approved by the directors on 24 January 1995 and were signed on their behalf by:



Sir Jeffery Bowman
Chairman of the Board of Directors

The notes on pages 6 and 7 form part of this balance sheet.

NOTES TO THE FINANCIAL ACCOUNTS

1. Accounting Policies

(a) Basis of accounting

The financial accounts have been prepared using the historical cost convention and in accordance with applicable accounting standards.

(b) Underwriting results

Underwriting results are the profits or losses arising from the Company's participation in Lloyd's underwriting syndicates. The results attributable to the participants are accounted for when the relevant year of account is closed, normally after three years. For the open underwriting years of account provision is made if required for any estimated net loss from the syndicate participants. Each underwriting year of account is considered separately for the purposes of determining any net loss.

(c) Cash flow statement

The Company meets the conditions prescribed in Financial Reporting Standard No.1, under which a cash flow statement is not required and accordingly such a statement has not been prepared.

(d) Statement of total recognised gains and losses

The Company had no recognised gains and losses for the period ended 31st December 1994 and therefore no separate statement of total recognised gains and losses has been presented.

2. Directors' Emoluments

None of the directors received any emoluments in respect of their services during the year.

3. General Expenses

The auditors' remuneration for the period was paid by Masthead Insurance Underwriting PLC, the parent company.

Other than 5 directors, the Company had no employees during the period.

4. Called up Share Capital

		1994 £
Authorised		
Ordinary shares	1,000 shares of £1 each	<u>1,000</u>
Allotted, called up and fully paid		
Ordinary shares	1,000 shares of £1 each	<u>1,000</u>

5. Covenant to Pay

The Society of Lloyd's and the parent company, Masthead Insurance Underwriting plc (the "Covenantor"), entered into a Master Agreement dated 31/12/93 which permits Masthead E Limited to provide Lloyd's deposits in the form of a covenant from its parent company which is secured by a mortgage of assets.

The existing covenant dated 31/12/93 remains unchanged and the liability of the Company shall not exceed seven million pounds.

6. Release of Premiums Trust Funds

The Council of Lloyd's permitted a release of up to 3% of allocated premium limits in 1994.

Amounts released under this provision were £360,000 to Murray Lawrence Members Agency Ltd in trust for the Company and US\$88,800 to the Lloyd's American Trust Fund. The sterling proceeds have been invested in 6 3/4% Treasury Stock 1995/98, which at 31st December 1994 had a market value, including accrued interest, of £350,899. In addition, £9,254 of interest has been received and is held in a deposit account. Except for certain limited purposes, no release can be made from these funds until the 1994 underwriting account has been closed and, in accordance with the accounting policy, it is not intended to take any credit, including credit for interest earned, until the closure of this account.

7. Ultimate Holding Company

The Company is a subsidiary undertaking of Masthead Insurance Underwriting plc which is incorporated in Great Britain and registered in England and Wales.

The results of Masthead E Limited are consolidated in the group financial statements of Masthead Insurance Underwriting plc. This is the only group of undertakings which includes the results of Masthead E Limited in its consolidated financial statements.

Copies of the group financial statements of Masthead Insurance Underwriting plc are available from the registered office, 41 Tower Hill, London EC3N 4HA.