

MLIT (No. 2) LIMITED

2949532

Report and Accounts

31 December 1997



Registered No. 2949532

DIRECTORS

During the period under review the directors were as follows:

A D Loehnis (Chairman)
R F Erith
J H C Leach

On 6 August 1997, the three directors named above resigned and the following were appointed in their place:

D S Hooker (Chairman)
A J Gammell
A S Fox

SECRETARY

Henderson Secretarial Services Limited (resigned 21 January 1998)
A S Fox (appointed 21 January 1998)

AUDITORS

Price Waterhouse (resigned 19 September 1997)
32 London Bridge Street
London
SE1 9SY

Ernst & Young (appointed 19 September 1997)
Rolls House
7 Rolls Buildings
Fetter Lane
London
EC4A 1NH

BANKERS

Lloyds Bank
72 Lombard Street
London
EC3P 3BT

REGISTERED OFFICE

38 St Mary Axe
London
EC3A 8EX

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 1997.

RESULTS AND DIVIDENDS

The results of the company for the year ended 31 December 1997 show a profit of £661,548 (1996 loss - £127,976) after taxation. The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY

The company traded as a Lloyd's Corporate Member until 31 December 1997. With effect from 1 January 1998, the company ceased to underwrite but is participating on the 1995 to 1997 years of account.

The company's participations in Lloyd's syndicates for the 1997-1995 underwriting years of account are as follows:

Syndicate Number	Main Line of Business Written	Capacity £'000's		
		1997	1996	1995
47	Non-Marine	-	1,500	1,500
79	Marine	250	-	-
362	Non-Marine	-	850	500
375	Marine	2,000	2,000	1,500
439	Motor	-	500	-
960	Aviation	1,250	-	-
1173	Non-Marine	-	1,000	1,000
2001	Non-Marine	2,000	-	-

ISSUE OF SHARES

On 20 February 1997, the company issued 25,000 shares, fully paid, at a premium of £1 each.

PARENT COMPANY/HOLDING COMPANY

Until 6 August 1997, the ultimate holding company was Matheson Lloyd's Investment Trust plc. On 6 August 1997 GoshawK Insurance Holdings plc acquired the Matheson Lloyd's Investment Trust plc Group. As part of the Group reconstruction, one controlling share was transferred from MLIT Holdings Limited to GoshawK Insurance Holdings plc.

DIRECTORS

The directors of the company are shown on page 1.

DIRECTORS' INTERESTS

No director had any interest in the share capital of the company. The directors' and their family and trust interests in Matheson Lloyd's Investment Trust plc at 1 January 1997 and 31 December 1997 are shown below:

	<u>Matheson Lloyd's Investment Trust plc</u>			
	31 December 1997		1 January 1997	
	or at date of resignation			
	Ordinary shares of 25p each	Warrants	Ordinary shares of 25p each	Warrants
A D Loehnis	10,000	2,000	10,000	2,000
R F Erith	10,000	2,000	10,000	2,000
J H C Leach	5,000	1,000	5,000	1,000

D S Hooker, A J Gammell and A S Fox are directors of GoshawK Insurance Holdings plc., and their interests are disclosed within those accounts.

DIRECTORS' REPORT (CONTINUED)

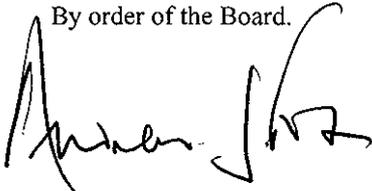
STATUS

The company has passed elective resolutions in accordance with the Companies Act 1985 to dispense with the holding of Annual General Meetings, the laying of reports and accounts before general meetings and appointing auditors annually.

CREDITORS' PAYMENT POLICY

It is the company's payment policy to obtain the best terms from suppliers and to settle bills accordingly.

By order of the Board.



A S FOX
Secretary

29 May 1998

DIRECTORS' STATEMENT OF RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

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

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

REPORT OF THE AUDITORS to the Members of MLIT (No. 2) Limited

We have audited the accounts on pages 6 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on those accounts and to report our opinion to you.

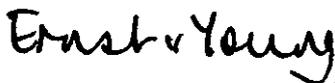
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, 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 the 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 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 affairs of the company as at 31st December 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

29 May 1998

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

	Notes	Year ended 31 December 1997 £	Period to 31 December 1996 restated £
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Earned premium net of reinsurance			
Gross premiums written		3,933,177	4,100,033
RITC received from earlier years		2,185,214	1,418,877
Total gross premium		<u>6,118,391</u>	<u>5,518,910</u>
Outward reinsurance premium		(986,281)	(806,073)
Net premium		<u>5,132,110</u>	<u>4,712,837</u>
Allocated investment income transferred from the non-technical account	4	297,660	97,105
Total technical income		<u><u>5,429,770</u></u>	<u><u>4,809,942</u></u>
Claims incurred net of reinsurance			
Claims paid:			
Gross amount		(2,033,270)	(1,518,773)
Reinsurers' share		423,269	323,953
		<u>(1,610,001)</u>	<u>(1,194,820)</u>
Change in provision for claims:			
Gross amount		(1,990,225)	(3,704,702)
Reinsurers' share		27,638	988,389
		<u>(1,962,587)</u>	<u>(2,716,313)</u>
Net claims incurred		<u>(3,572,588)</u>	<u>(3,911,133)</u>
		<u>1,857,182</u>	<u>898,809</u>
Net operating expenses	5	(1,177,391)	(1,013,618)
Investment expenses and charges		(4,171)	(2,691)
Balance on technical account - general business		<u><u>675,620</u></u>	<u><u>(117,500)</u></u>

All amounts above are in respect of continuing operations.

The notes on pages 10 to 15 form part of these accounts and include details of the basis of preparation in Note 1.

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1997

	Notes	Year ended 31 December 1997 £	Period to 31 December 1996 restated £
NON TECHNICAL ACCOUNT			
Balance on general business technical account		675,620	(117,500)
Investment income	4	298,367	113,409
Allocated investment income transferred to the technical account	4	(297,660)	(97,105)
Other income	6	278,331	-
Other charges	3	(61,971)	(34,519)
Profit/(loss) on ordinary activities before taxation		<u>892,687</u>	<u>(135,715)</u>
Taxation/tax credit	9	(231,139)	7,739
Profit/(loss) on ordinary activities after taxation		<u>661,548</u>	<u>(127,976)</u>
Retained (loss) brought forward		(303,645)	(175,669)
Retained profit/(loss) carried forward		<u><u>357,903</u></u>	<u><u>(303,645)</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the profit for the financial year.

All income is derived from continuing activities of the company.

The notes on pages 10 to 15 form part of these accounts and include details of the basis of preparation in Note 1.

BALANCE SHEET

at 31 December 1997

	Notes	Year ended 31 December 1997			Period ended 31 December 1996		
		Corporate £	Syndicate partici- pations £	Total £	Corporate £	Syndicate partici- pations £	Total £
ASSETS							
Investments							
Other financial investments	10	-	3,154,915	3,154,915	-	1,119,847	1,119,847
Deposits with ceding undertakings		-	15,404	15,404	-	13,636	13,636
		<u>-</u>	<u>3,170,319</u>	<u>3,170,319</u>	<u>-</u>	<u>1,133,483</u>	<u>1,133,483</u>
Reinsurer's share of technical provision							
Claims outstanding		-	517,111	517,111	-	1,998,986	1,998,986
Debtors							
Debtors from direct reinsurance operations:							
Due from policy holders		-	22,596	22,596	-	-	-
Due from intermediaries		-	917,349	917,349	-	922,508	922,508
Debtors arising out of reinsurance operations:							
Other debtors	11	254,801	196,718	451,519	41,355	1,976,985	1,976,985
Net amount due from syndicate participations	12	516,710	(516,710)	-	-	-	-
		<u>771,511</u>	<u>3,232,131</u>	<u>4,003,642</u>	<u>41,355</u>	<u>3,075,973</u>	<u>3,117,328</u>
Other Assets							
Cash at bank and in hand		79,457	592,223	671,680	1	404,810	404,811
Other		-	543,898	543,898	-	749,198	749,198
		<u>79,457</u>	<u>1,136,121</u>	<u>1,215,578</u>	<u>1</u>	<u>1,154,008</u>	<u>1,154,009</u>
Prepayments and accrued income							
		-	10,515	10,515	-	17,509	17,509
TOTAL ASSETS		<u><u>850,968</u></u>	<u><u>8,066,197</u></u>	<u><u>8,917,165</u></u>	<u><u>41,356</u></u>	<u><u>7,379,959</u></u>	<u><u>7,421,315</u></u>

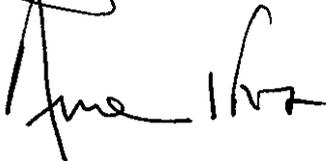
BALANCE SHEET at 31 December 1997

	Notes	Year ended 31 December 1997			Period ended 31 December 1996		
		Corporate £	Syndicate partici- pations £	Total £	Corporate £	Syndicate partici- pations £	Total £
LIABILITIES							
Capital and Reserves							
Share capital	13	75,001	-	75,001	50,001	-	50,001
Share premium		75,000	-	75,000	50,000	-	50,000
Profit and loss account		357,903	-	357,903	(303,645)	-	(303,645)
Shareholders' funds attributable to equity interest	14	507,904	-	507,904	(203,644)	-	(203,644)
Technical provision							
Claims outstanding	15	86,090	7,460,802	7,546,892	245,000	7,076,856	7,321,856
Creditors							
Deposits from reinsurers		-	5,590	5,590	-	-	-
Creditors arising out of direct insurance operations		-	178,660	178,660	-	98,237	98,237
Creditors arising out of reinsurance operations		-	153,050	153,050	-	177,506	177,506
Due to credit institutions		-	370	370	-	-	-
Other	16	231,139	265,078	496,217	-	27,360	27,360
		231,139	602,748	833,887	-	303,103	303,103
Accruals and deferred income	17	25,835	2,647	28,482	-	-	-
TOTAL LIABILITIES		850,968	8,066,197	8,917,165	41,356	7,379,959	7,421,315

Director



Director



 29
 May 1998

NOTES TO THE ACCOUNTS at 31 December 1997

1. ACCOUNTING POLICIES

The principal accounting policies which have been consistently applied in arriving at the financial information set out in this report are :

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards or the requirements of the Companies Act.

Disclosure Requirements

The accounts have been prepared in compliance with the Section 255A of Schedule 9A and other requirements of the Companies Act.

Basis of accounting for underwriting business

The company underwrites insurance as a corporate members of Lloyd's on a number of syndicates managed by third parties and the group . In view of the position as principal of underwriting members for the transactions of syndicates in which they participate, the attributable share of transactions undertaken by the syndicates has been included in the financial statements. The transactions are undertaken within premium trust funds applicable to the syndicates and profits arising from the underwriting may only be released in accordance with Lloyd's syndicate accounting rules, usually two years after the end of an underwriting year of account, and after satisfying Lloyd's solvency requirements for all years of account open at the time of release.

The Technical Account has been prepared by aggregating the company's share of the underwriting transactions (premiums, claims, expenses and investment income) of the syndicates of which the company is members for the period for which the group owned the capacity. These transactions relate to the calendar year ended 31 December 1997, the most recent year of the syndicates, with comparative figures for the year ended 31 December 1996.

The result shown on the Technical Account for the year ended 31 December 1997 comprises the net profits of the 1995 year of account less any provisions for losses in respect of the open 1996 and 1997 years of account. The balance sheet of the company includes the company's share of assets and liabilities of the syndicates in which it participated for the 1995, 1996 and 1997 years of account at 31 December 1997 with comparative figures at 31 December 1996. Technical provisions include any additional provisions for losses made in respect of open and run-off years of account.

The Lloyd's syndicates in which the company participates are managed and controlled by their respective managing agents. The attributable share of the transactions of syndicates included in the financial statements has been incorporated on the basis of the Supplementary Syndicate Return - Syndicate 9a Information supplied by the managing agents to Lloyd's.

A cashflow statement has not been provided, as permitted by FRS 1 (Revised) since the company is a wholly owned subsidiary.

Premiums

Gross premiums written represent premiums receivable on business incepting during the underwriting year of account together with adjustments to premiums written in previous underwriting years of account and including estimates for 'pipeline' premiums. Gross written premiums are stated before deduction of commissions but exclusive of taxes, duties levied on premiums and other deductions.

Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance contracts or reinsurance contracts except in relation to excess of loss contracts, where the initial premium is charged when due.

Technical provisions

The underwriting accounts for all classes of business are prepared on a three year basis, in accordance with Lloyd's normal practice. The excess of premiums written and syndicate investment income over the claims and syndicate expenses paid in respect of business incepting in an underwriting year is carried forward for two years in a fund and no profit is recognised until the end of the third year following the start of each underwriting year. The fund is included as part of outstanding claims. At the end of the third year and thereafter, provision is made for the estimated cost of claims notified but not settled at the balance sheet date together with the estimated cost of claims incurred but not reported at that date and claims handling costs.

NOTES TO THE ACCOUNTS at 31 December 1997

1. ACCOUNTING POLICIES(continued)

Where appropriate a provision for losses is made in respect of the open underwriting years of each syndicate on which the group participates. While the directors make every effort to ensure that adequate provision is made for losses on open years of account and years in run-off, their view of the ultimate loss may vary in later periods as a result of subsequent information and events. This in turn may require adjustment of the original provisions. Such adjustments are reflected and disclosed in the financial statements for the period in which the related adjustments are made.

Investments

Listed investments are shown at market value.

Participations acquired at auction or by offers to Syndicate Names are carried at cost less amounts written off to the profit and loss account for any permanent diminution in value. The carrying value of the investment is reviewed by the directors for permanent diminution at the end of each accounting period.

Investment income

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years of account proportionately to the funds constituted by the year of account. Investment income and all investment gains and losses (realised and unrealised) relating to Syndicate investments and cash are included in the non-technical account and transferred to the technical account.

Investment income from company owned investments (including gains and losses) is included in the non technical account

Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to be reversed in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign Currencies

Syndicate assets, liabilities income and expenditure expressed in US dollars and Canadian dollars are translated at rates of exchange ruling at the balance sheet date. Underwriting transactions in other foreign currencies are included in the accounts at historical rates. All differences on the translation of foreign currency amounts in the syndicates are dealt with in the technical account; other differences are dealt with in the non-technical account.

2. SEGMENTAL INFORMATION

All the turnover from the participations as a corporate member arises from underwriting business in the United Kingdom in the Lloyd's Insurance Market, which has been treated as own geographical element for the purposes of Statement of Standard Accounting Practice No. 25. The profits from these activities are disclosed in the non-technical profit and loss account.

NOTES TO THE ACCOUNTS

at 31 December 1997

3. OTHER CHARGES

	Year ended 31 December 1997	Period to 31 December 1996
	£	£
Auditor's remuneration	1,829	568
Professional fees	4,482	2,590
Lloyd's corporate capital fee	276	289
Lloyd's adviser's fees	55,384	31,072
	<u>61,971</u>	<u>34,519</u>

4. INVESTMENT INCOME

	1997	1996
	£	£
Syndicate investment income	251,174	115,751
Syndicate realised gains/(losses)	46,486	(18,646)
	<u>297,660</u>	<u>97,105</u>
Attributable to technical account		
Bank interest	707	16,304
Total investment income	<u>298,367</u>	<u>113,409</u>

5. NET OPERATING EXPENSES

	1997	1996
	£	£
Syndicate operating expenses	(196,738)	(128,582)
Exchange adjustment	81,922	(100,525)
Commission paid	(744,691)	(784,511)
1995 Underwriting Year Personal Expenses	(317,884)	-
	<u>(1,177,391)</u>	<u>(1,013,618)</u>

6. OTHER INCOME

	1997	1996
	£	£
Sales from Lloyd's Syndicate Auctions	199,581	-
Lloyd's Special Contribution Refund	78,750	-
	<u>278,331</u>	<u>-</u>

7. DIRECTORS' EMOLUMENTS

None of the directors receive any emoluments in respect of their services as directors of the company.

NOTES TO THE ACCOUNTS

at 31 December 1997

8. STAFF COSTS

There are no staff employed by the company.

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 1997 £	Period to 31 December 1996 £
Based on the profit for the period:		
Corporation tax (charge) / credit at 31.5% (1996 33%)	(231,139)	7,739
	<u> </u>	<u> </u>

10. OTHER FINANCIAL INVESTMENTS

	1997 £	1996 £
Shares and other variable yield securities	3,709	13,915
Debt security and other fixed income securities	2,686,223	1,081,666
Participation in investment pools	15,529	-
Deposits with credit institutions	80,969	24,058
Other investments	368,485	208
	<u>3,154,915</u>	<u>1,119,847</u>

11. OTHER DEBTORS

	1997 £	1996 £
Amount due from parent company	254,801	41,355
Syndicate debtors	196,718	176,480
	<u>451,519</u>	<u>217,835</u>

12. NET AMOUNT DUE FROM SYNDICATE PARTICIPATIONS

	1997 £	1996 £
Balance on technical account	675,620	(117,500)
1995 underwriting provision release	(127,500)	-
1996 underwriting provision	-	117,500
Reduction in 1996 underwriting provision	(31,410)	-
	<u>516,710</u>	<u> </u>

NOTES TO THE ACCOUNTS at 31 December 1997

13. CALLED UP SHARE CAPITAL

	Authorised		Allotted and fully paid	
	1997 £	1996 £	1997 £	1996 £
Ordinary shares of £1 each	200,000	200,000	75,001	50,001

On 20 February 1997, the company issued 25,000 fully paid ordinary £1 shares at a premium of £1 each.

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share Capital £	Share Premium £	Profit and loss account £	Total £
At 30 March 1996	50,001	50,000	(175,669)	(75,668)
(Loss) for the period	-	-	(127,976)	(127,976)
At 31 December 1996	50,001	50,000	(303,645)	(203,644)
Issue of shares	25,000	25,000	-	50,000
Profit for the year	-	-	661,548	661,548
At 31 December 1997	75,001	75,000	357,903	507,904

15. TECHNICAL PROVISION

	£
1995 underwriting provision	127,500
1996 underwriting provision	117,500
As at 31 December 1996	245,000
Release of 1995 underwriting provision	(127,500)
Reduction of 1996 underwriting provision	(31,410)
As at 31 December 1997	86,090

16. OTHER CREDITORS

	1997 £	1996 £
Corporation Tax	231,139	-
Syndicate creditors	265,078	27,360
	496,217	27,360

NOTES TO THE ACCOUNTS at 31 December 1997

17. ACCRUALS AND DEFERRED INCOME

	1997	1996
	£	£
Accruals	25,835	-
Syndicate accruals and deferred income	2,647	-
	<u>28,482</u>	<u>-</u>

18. ULTIMATE PARENT

Until 6 August 1997, the ultimate holding company was Matheson Lloyd's Investment Trust plc. On 6 August 1997 Goshawk Insurance Holdings plc acquired the Matheson Lloyd's Investment Trust plc Group.

The accounts of Goshawk Insurance Holding plc are available from 38 St Mary Axe, London EC3A 8EX.

19. RELATED PARTIES

The company has taken advantage of the exemption under FRS8 not to disclose related party transactions on the grounds it is a wholly owned subsidiary.

20. CONVENANT MADE BY ULTIMATE PARENT COMPANY

A fixed and floating charge over the investment portfolio and other cash assets secure the obligation to Lloyd's in respect of the underwriting activities of the corporate member subsidiaries. The total guarantee given by Goshawk Insurance Holdings plc under a deed of covenant amounts to £47,594,000. The guarantee supports the corporate members participations for the 1995 - 1997 years of account. Lloyd's has the right to retain the income on the charged investments although it is not expected to exercise this right. As liability under the deed of covenant is limited to a fixed and monetary amount, the enforcement by Lloyd's of the deed of covenant in the event of a default by a corporate member may, where the total value of investments has fallen below the total of all amounts covenanted, result in the appropriation of a share of the Group's funds at Lloyd's that is greater than the proportion which that corporate member's overall premium bears to the overall premium of the Group. In the event that any corporate member makes a loss which is not satisfied, the Company is obliged to procure that its other members, if required by Lloyd's, stop or reduce underwriting and that any profit in their respective Premiums Trust Funds is paid to the Central Fund to meet the losses of the relevant corporate member.