

EQUITY RED STAR LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2001

COMPANY NUMBER 2947508

A COMPANY OF



COX INSURANCE
HOLDINGS PLC



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DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2001.

DIRECTORS

The directors who served during the year were as follows:

R M Brewster

M G Dawson

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the company continued to be that of a member at Lloyd's underwriting solely on syndicate 218. With effect from the 2001 year of account the company ceased writing new business.

On 11 April 2002 the Company was party to an agreement entered into with Lloyd's by various Group companies. The details of that agreement are set out in Note 2 on page 10.

RESULTS AND DIVIDENDS

The results for the year are set out on page 4 and 5.

The directors do not recommend a final dividend (2000 - £ Nil). £2,495,000 was transferred to reserves (31 December 2000 - £8,443,000).

POST BALANCE SHEET EVENTS

Events since the year end are set out in Note 2 to the financial statements on page 10.

GOING CONCERN

The Directors, after making appropriate enquires, believe that the Company is a going concern. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the company did not make any charitable donations and no contributions were made for political purposes.

EMPLOYEES

During the year all staff were employed by Cox Services Limited.

DIRECTORS' INTERESTS

None of the directors had beneficial interests in the shares of the Company as at 31 December 2001. All of the directors are directors of Cox Insurance Holdings Plc, the company's ultimate parent company, and their interests are disclosed in the financial statements of that company.

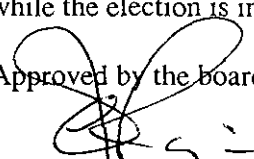
LIABILITY INSURANCE FOR COMPANY OFFICERS, GROUP DIRECTORS AND OFFICERS

As permitted by the Companies Act 1985, the group has maintained insurance cover for directors and officers against liabilities arising in relation to the group.

AUDITORS

An elective resolution has been passed by the Company to dispense with the obligation to appoint auditors annually. Consequently, PricewaterhouseCoopers shall be deemed to be re-appointed for each financial year while the election is in force.

Approved by the board of directors and signed on behalf of the board


C J Ringrose - Secretary

30 May 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period 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 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; and
- prepare the financial statements on a 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EQUITY RED STAR LIMITED

We have audited the financial statements on pages 4 to 16 which have been prepared in accordance with the accounting policies set out on pages 7 to 10.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

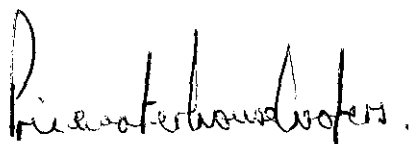
Basis of audit opinion

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

30 May 2002

Equity Red Star Limited
PROFIT AND LOSS
TECHNICAL ACCOUNT
for the year ended 31 December 2001

		Year ended 31 December 2001	Year ended 31 December 2000
	Notes	£'000	£'000
Gross premium written	3	9,198	226,969
Outwards reinsurance premium		<u>(1,711)</u>	<u>(23,816)</u>
Net written premium		<u>7,487</u>	<u>203,153</u>
Change in gross unearned premium		103,029	(25,857)
Change in unearned outwards reinsurance premium		<u>(9,879)</u>	<u>4,917</u>
Change in net unearned premium		<u>93,150</u>	<u>(20,940)</u>
Net earned premiums	3	100,637	182,213
Net investment return on a longer term rate of return basis transferred from non-technical account	3,6	<u>6,296</u>	<u>4,824</u>
Total technical income		<u>106,933</u>	<u>187,037</u>
Gross claims paid		(108,494)	(100,269)
Reinsurance recoveries on paid claims		<u>17,463</u>	<u>10,614</u>
Net paid claims		<u>(91,031)</u>	<u>(89,655)</u>
Change in gross claims provision		17,365	(63,145)
Change in reinsurers share of claims provisions		<u>6,523</u>	<u>13,789</u>
Change in net claims provision		<u>23,888</u>	<u>(49,356)</u>
Net claims incurred		(67,143)	(139,011)
Net operating expenses	3,5	<u>(34,773)</u>	<u>(38,544)</u>
Total technical charges		<u>(101,916)</u>	<u>(177,555)</u>
Balance on technical account	3	<u><u>5,017</u></u>	<u><u>9,482</u></u>

All operations relate to discontinued activities.

The notes on pages 7 to 16 form an integral part of these financial statements.

Equity Red Star Limited
PROFIT AND LOSS
NON-TECHNICAL ACCOUNT
for the year ended 31 December 2001

		Year ended 31 December 2001	Year ended 31 December 2000
	Notes	£'000	£'000
Balance on the technical account		5,017	9,482
Net investment return	6	5,512	4,104
Net investment return on a longer term rate of return basis transferred to the technical account	6	(6,296)	(4,824)
Other expenses		(327)	(2)
Amortisation of investment in syndicate capacity		-	(1,063)
Operating profit based on a longer term investment return		3,906	7,697
Short term fluctuations in investment return	6	(366)	2,005
Profit on ordinary activities before tax		3,540	9,702
Tax on profit on ordinary activities	8	(1,045)	(1,259)
Profit on ordinary activities after tax		2,495	8,443
Dividends		-	-
Retained profit for the financial year	12	2,495	8,443

All operations relate to discontinued activities.

There are no recognised gains or losses in the period other than those included in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been presented.

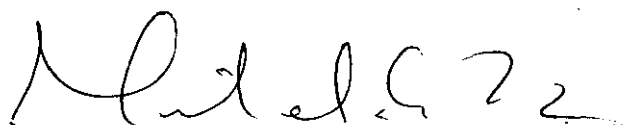
The notes on pages 7 to 16 form an integral part of these financial statements.

Equity Red Star Limited**BALANCE SHEET**

at 31 December 2001

		31 December 2001	31 December 2000
	Notes	£'000	£'000
Assets			
Debt securities and other fixed investment securities		59,985	73,240
Shares and other variable yield securities		31	33
Deposits with credit institutions		6,150	29,054
Reinsurers' share of technical provisions			
- provision for unearned premiums		1,321	11,161
- claims outstanding		28,656	22,143
Debtors	9	39,084	98,432
Cash at bank and in hand		4,178	2,518
Deferred acquisition costs		1,105	24,171
Prepayments and accrued income		219	-
Total assets		140,729	260,752
Capital and reserves			
Share capital	10	1	1
Share premium account	11	2,753	2,753
Profit and loss account	11	9,930	7,435
Total equity shareholders funds	12	12,684	10,189
Liabilities			
Technical provisions			
- provision for unearned premiums		5,101	108,134
- claims outstanding		91,979	109,153
Provisions for other risks and charges	14	5,179	3,548
Creditors	13	25,786	29,728
Total liabilities		128,045	250,563
Total equity shareholders funds and liabilities		140,729	260,752

Approved by the board of directors and signed on its behalf:


MG Dawson
Director

30 May 2002

The notes on pages 7 to 16 form an integral part of these financial statements.

NOTES TO THE ACCOUNTS**for the year ended 31 December 2001****1. ACCOUNTING POLICIES****a) Basis of accounting**

The financial statements have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985 and with the Statement of Recommended Practice for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules as modified for the revaluation of investments.

The financial statements incorporate the financial statements of the Company together with the Company's participation in the Lloyd's syndicate on an annual accounting basis. The share of the syndicate was as follows:

	Lloyd's 2001 year of account capacity £'000	Company's % of total capacity	Lloyd's 2000 year of account capacity £'000	Company's % of total capacity	Lloyd's 1999 year of account capacity £'000	Company's % of total capacity
Motor Syndicate 218	Nil	0.0	135,789	56.5	129,640	53.8

The principal accounting policies adopted are described below.

b) Changes in accounting policy

FRS 18 "Accounting Policies" has been adopted in the current year, but this did not require any change in accounting policies.

c) Premiums

Under the annual basis of accounting, written premiums comprise the premiums on contracts incepting in the period. Estimates are included of pipeline premiums due but not yet notified to the company.

Written premiums are stated gross of commission payable to intermediaries and exclusive of taxes and duties revised on premiums. Commissions due but not paid is included in creditors.

Outwards reinsurance premiums are accounted for on an earned basis to match the premiums for the related direct or inward reinsurance business.

d) Reinsurance to close

To the extent that the company increases its participation on a Cox managed syndicate from one Lloyd's year of account to the next, it is a net recipient of premium to reinsure the earlier Lloyd's year of account into the latter. This share of the reinsurance to close premium is recognised as income at the end of the financial period when the related Lloyd's year of account closes and is represented in the balance sheet by the related share of assets and liabilities transferred between the two Lloyd's years of account of the relevant Cox managed syndicate.

e) Unearned premiums

A provision for unearned premiums is made which represents that part of gross, and reinsurers' share of, premiums written which is estimated to be earned in the following or subsequent periods. It is calculated separately for each insurance contract on the 365ths basis where the incidence of risk is even over the term of the contract. Where the incidence of risk varies during the term of the contract the provision is based on the estimated risk profile of business written.

1. ACCOUNTING POLICIES (CONTINUED)

f) Acquisition costs

Acquisition costs represent the expenses, both direct and indirect, of acquiring insurance policies written during the year. Acquisition costs are spread over an equivalent year to that over which premium on the underlying business is earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

g) Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the period and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries.

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

h) Claims outstanding

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries.

The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims liabilities, it is likely that the final outcome will prove to be different from the original provision established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compare with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movements in industry benchmarks

1. ACCOUNTING POLICIES (CONTINUED)

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous period.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Motor business

The estimated cost of motor claims excluding the cost of personal injury claims is calculated by reference to the projected number of claims, based on statistics showing how the number of notified claims has been developed over time, and the anticipated average cost per claim, based on historical levels adjusted to allow for movements in the variables described above. The personal injury element of motor claims costs is estimated using the same method as used for liability claims described below. In addition the estimate is assessed in the context of the historical development of paid and incurred claims and the implied loss ratios for each accident year.

Reinsurance recoveries

Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

i) Other technical provisions

Provision is made for unexpired risks when it is anticipated, on the basis of information available at the year end, that unearned premiums will be insufficient to meet future claims and related expenses of business in force at the end of the year. The provision for unexpired risks is included within technical provisions in the balance sheet.

j) Investment income, expenses and charges

Investment income comprises interest, realised gains and dividends and is dealt with on an accruals basis.

Interest payable and expenses incurred in the management of investments are accounted for on an accruals basis.

1. ACCOUNTING POLICIES (CONTINUED)

k) Investment return

Net investment return comprises investment income, unrealised gains and losses on investments, investment expenses and interest payable. The longer term return on investments owned by the underlying syndicates, initially allocated to the non-technical account, is transferred from that account to the technical account. The actual net investment return from other activities is included within the non-technical account as part of operating profit. The difference between the longer term return allocated to the technical account and the actual return achieved on the underlying assets is recorded in the non-technical account after 'Operating loss on a longer term investment return', and disclosed as 'Short term fluctuations in investment return'.

l) Investments

Investments are stated at market value on an aggregate basis. The aggregate difference between valuation and cost is recognised as an unrealised gain or loss in the technical account.

m) Foreign currency translation

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the times of the transactions. Monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date.

For syndicate 218, separate currency funds are maintained for each territory in which it operates. Transactions during the year in other overseas currencies are expressed in sterling at the rates ruling at the transaction date.

n) Taxation

Corporation tax is provided on taxable profits at the current rate.

Deferred taxation is provided using the liability method on all timing differences arising from the different treatment of items for accounting and taxation purposes.

2. POST BALANCE SHEET EVENTS

Lloyd's Agreement

On 11 April 2002 Cox Insurance Holdings Plc and certain of its subsidiaries including the Company entered into an agreement with Lloyd's relating to the proposed restructuring of the Group's activities.

Under the terms of this agreement any profits from the 2000 and prior underwriting years of account earned by the Company from its participation on syndicate 218 may be applied to meet the Group's total underwriting liabilities from the 2002 and prior years of account.

3. ANALYSIS OF UNDERWRITING RESULT

Analysis of gross premiums written, gross premiums earned, gross claims incurred, net operating expenses and the reinsurance balance for the year:

	Accident & health	Motor	Fire and property damage	Miscellaneous	Reinsurance to close	Total
	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2001						
Gross premiums written	(201)	7,885	173	(33)	1,374	9,198
Net earned premiums	1,503	86,199	7,154	4,407	1,374	100,637
Gross premiums earned	1,585	95,691	8,446	5,131	1,374	112,227
Gross claims incurred	(1,032)	(81,045)	(5,212)	(1,619)	(2,221)	(91,129)
Reinsurance balance	(220)	11,644	1,039	(914)	847	12,396
Net operating expenses	(797)	(29,587)	(2,795)	(1,594)	-	(34,773)
Net longer term investment return transferred from the non-technical account	(38)	5,587	321	426	-	6,296
Balance on technical account	(502)	2,290	1,799	1,430	-	5,017
	Accident & health	Motor	Fire and property damage	Miscellaneous	Reinsurance to close	Total
	£'000	£'000	£'000	£'000	£'000	£'000
31 December 2000						
Gross premiums written	2,632	169,096	14,882	19,171	21,188	226,969
Net earned premiums	2,545	133,745	10,948	13,787	21,188	182,213
Gross premiums earned	2,897	145,853	12,358	18,816	21,188	201,112
Gross claims incurred	(1,728)	(114,462)	(7,479)	(16,100)	(23,645)	(163,414)
Reinsurance balance	(282)	2,586	(267)	1,010	2,457	5,504
Net operating expenses	(1,146)	(29,036)	(5,335)	(3,027)	-	(38,544)
Net longer term investment return transferred from the non- technical account	181	3,929	431	283	-	4,824
Balance on technical account	(78)	8,870	(292)	982	-	9,482

Reinsurance inwards business has been analysed by class of business, rather than being shown separately, as the reinsurance accepted by the company has the characteristics of primary business.

The company operates wholly in the UK and the directors consider that its only business is as a corporate member of Lloyd's.

4. MOVEMENT IN PRIOR YEARS PROVISIONS FOR CLAIMS OUTSTANDING

Under or over provisions in respect of prior year claims provisions are measured as claims at the beginning of the year as compared with net payments and provisions at the end of year in respect of prior period claims

There were no material prior year movements.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2001

5. NET OPERATING EXPENSES - TECHNICAL ACCOUNT

	Year ended 31 December 2001	Year ended 31 December 2000
	£'000	£'000
Acquisition costs	27,851	38,024
Change in deferred acquisition costs	6,068	(1,293)
Foreign exchange gain	6	(3)
Lloyd's personal expenses and other charges	848	1,816
	<u>34,773</u>	<u>38,544</u>

6. INVESTMENT RETURN

	Year ended 31 December 2001	Year ended 31 December 2000
	£'000	£'000
Investment income	6,449	5,484
Realised gains / (losses)	(519)	1,345
Other investment return	-	5
	<u>5,930</u>	<u>6,834</u>
Interest paid	<u>(784)</u>	<u>(725)</u>
Net investment return	<u>5,146</u>	<u>6,109</u>
Analysed as:		
Underwriting investment return	6,296	4,824
- on a longer term rate of return basis	(784)	(720)
Non underwriting investment return	<u>5,512</u>	<u>4,104</u>
Short term fluctuations in underwriting investment return	<u>(366)</u>	<u>2,005</u>
	<u>5,146</u>	<u>6,109</u>

The transfer to the technical account represents the estimated long-term rate of return, as indicated below, applied to the company's share of investment assets of the syndicates.

	2001	2000
Longer term rate of return		
UK and overseas equities	8.5%	8.5%
UK and overseas bonds	6.0%	6.0%

The longer term rates of return were established by having regard to the historical asset performance current and prospective bond yields and the estimated risk premium for holding equity investments.

Equity Red Star Limited**NOTES TO THE ACCOUNTS****for the year ended 31 December 2001****6. INVESTMENT RETURN (CONTINUED)**

These rates were applied to the average bond and equity components of the underwriting investment assets. The gross values of these investments at the closing dates are shown below.

	Year ended 31 December 2001	Year ended 31 December 2000
	£'000	£'000
Syndicate assets	<u>66,166</u>	<u>102,327</u>

7. OPERATING PROFIT BASED ON A LONGER TERM INVESTMENT RETURN

Many costs, including staff related costs, auditors' remuneration are borne by Cox Services Limited ("CSL").

Disclosure of the full amounts are shown in the notes to the financial statements of CSL. The amount re-charged to the company by CSL during 2001 was £Nil (2000 - £Nil).

The directors are remunerated by CSL for their services to the group as a whole and the remuneration for their services as a director of this Company is £Nil (2000 - £Nil).

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2001	Year ended 31 December 2000
	£'000	£'000
UK Corporation tax at 30 % (2000 - 30%)	250	1,876
Adjustment relating to prior years	17	-
Deferred tax	<u>(1,312)</u>	<u>(3,135)</u>
	<u>(1,045)</u>	<u>(1,259)</u>

9. DEBTORS

	2001	2000
	£'000	£'000
Debtors arising out of direct insurance operations	9,361	48,072
Debtors arising out of reinsurance operations	3,882	1,648
Tax recoverable	146	1,213
Amounts owed by group operations	21,362	22,107
Other debtors	<u>4,333</u>	<u>25,392</u>
Total debtors	<u>39,084</u>	<u>98,432</u>

Of the debtors shown above £17,572,000 relates to syndicate balances (2000 - £73,650,000).

10. SHARE CAPITAL

	Authorised		Allotted, called up & fully paid.	
	No.	£	No.	£
Ordinary shares of 0.1p each				
At 31 December 2000	<u>5,000,000</u>	<u>5,000</u>	<u>1,214,585</u>	<u>1,215</u>
At 31 December 2001	<u>5,000,000</u>	<u>5,000</u>	<u>1,214,585</u>	<u>1,215</u>
Preference shares of £1 each				
At 31 December 2000	<u>11,990,000</u>	<u>11,990,000</u>	<u>-</u>	<u>-</u>
At 31 December 2001	<u>11,990,000</u>	<u>11,990,000</u>	<u>-</u>	<u>-</u>

Non-redeemable Cumulative Preference Shares

On 19 August 1998 the authorised share capital of the company was increased by £11,990,000 by the creation of 11,990,000 new non-redeemable cumulative preference shares of £1 each. Holders of Unsecured Convertible Redeemable Loan Stock 1998-2003, under the terms of the loan note instrument, may on or at any time after 19 August 2003 convert the Loan Stock into fully paid Preference Shares on the basis of one Preference Share for every £1 of Loan Stock held.

Income

Holders of the Preference Shares are entitled to a cumulative preferential dividend at the rate of 1% above LIBOR in priority to any payment of dividend to the holders of other class of shares and are not entitled to any further right of participation in the profits of the Company.

Capital

On a return of capital on winding-up or otherwise holders of the Preference Shares are entitled, in priority to any payment to the holders of any other class of share, to the repayment of a sum equal to the nominal amount of paid up capital together with all arrears of the preferential dividend and are not entitled to any further right of participation in the assets of the Company.

General Meetings

Holders of the Preference Shares are entitled to receive notice of, attend, speak and vote at a general meeting of the Company only if and when at the date of the notice convening such meeting the preferential dividend is six months or more in arrears or if a resolution is to be proposed abrogating, varying or modifying the rights or privileges of the holders of the Preference Shares (in which case they shall only be entitled to vote on such resolution).

Voting

Whenever the holders of the Preference Shares are entitled to vote on a resolution at a general meeting of the Company, on a show of hands, every such holder who is present in person or (being a corporation) by a representative shall have one vote and, on a poll, every such holder who is present in person or by proxy shall have one vote in respect of each fully-paid Preference Share registered in the name of such holder.

Equity Red Star Limited**NOTES TO THE ACCOUNTS**

for the year ended 31 December 2001

11. RESERVES

	Profit & Loss Account	Share Premium Account
	£'000	£'000
Balance at 31 December 2000	7,435	2,753
Retained profit for the financial year	<u>2,495</u>	<u>-</u>
Balance at 31 December 2001	<u>9,930</u>	<u>2,753</u>

12. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2001	2000
	£'000	£'000
Retained profit for the financial year	2,495	8,443
Equity shareholders' funds at the beginning of the year	<u>10,189</u>	<u>1,746</u>
Equity shareholders' funds at end of year	<u>12,684</u>	<u>10,189</u>

13. CREDITORS

	31 December 2001	31 December 2000
	£'000	£'000
Creditors arising out of direct insurance operations	415	2,508
Creditors arising out of reinsurance operations	451	2,387
Bank overdraft	3,222	1,656
Amounts due to group undertakings	21,698	21,460
Other creditors	<u>-</u>	<u>1,717</u>
Total creditors	<u>25,786</u>	<u>29,728</u>
Borrowings falling due within one year	3,222	1,656
Other creditors falling due within one year	<u>11,988</u>	<u>18,279</u>
Creditors falling due within one year	15,210	19,935
Borrowings due after more than one year	<u>10,576</u>	<u>9,793</u>
Total creditors	<u>25,786</u>	<u>29,728</u>

Of the creditors disclosed above £4,900,000 relates to syndicate balances (2000 – £8,374,000).

Borrowings due after more than one year represent Unsecured Convertible Loan Stock 1998-2003 (see note 10). This loan stock is repayable at an interest rate of 7.77%.

14. PROVISIONS FOR OTHER RISKS AND CHARGES

	Deferred taxation £'000
At 31 December 2000	3,548
Charge to profit and loss account	1,312
Other timing differences	319
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At 31 December 2001	5,179
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There is no unrecognised deferred tax (2000 - £Nil).

15. FUNDS AT LLOYD'S

The Company has entered into a deed of charge in favour of Lloyd's on the assets of the Company for an amount of £50,658,769 (2000 - £43,125,196) which is inter-available to Cox Dedicated Corporate Member Limited, a fellow subsidiary.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Of the net assets disclosed on the Company's balance sheet, £80,184,000 (2000: £155,959,000), are subject to Lloyd's Premium Trust Funds ("PTF's") or will become subject to the PTF's on realisation, of which £66,166,000 (2000 - £102,326,000) are investments. These funds will only be released to the Company on the closing of the 1999 and 2000 years of account in 2002 and 2003.

The Company has issued a second charge over its funds at Lloyd's in favour of the banks which have provided Cox Insurance Holdings Plc with a £86m (2000 - £55m) syndicated loan.

Under the terms of the Lloyd's Agreement (see note 2) any profits from the 2000 and prior underwriting years of account earned by the Company from its participation on syndicate 218 may be applied to meet the Group's total underwriting liabilities from the 2002 and prior years of account.

17. ULTIMATE PARENT COMPANY

The intermediate parent company is Equity Red Star Holdings Limited. The ultimate parent undertaking and controlling party is Cox Insurance Holdings Plc, which is the parent of the smallest and largest group to consolidate these financial statements. Copies of Cox Insurance Holdings Plc (No.2950905) consolidated statements can be obtained from the Company Secretary at 34, Leadenhall Street, London, EC3A 1AX.

Consequently, the company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standards (revised 1996). The company is also exempt under the terms of Financial Reporting Standards from disclosing related party transactions that are part of the Cox Insurance Holdings Plc group.