

SYNOPSIS

Background

The Company is an insurance company incorporated in England in 1980. It ceased underwriting in 1991 and went into run-off. At an EGM duly convened and held on 8 October 1993, the Company's members passed a resolution for the winding up of the Company. A winding up petition was presented on 14 October 1993 when Philip J Singer and Christopher J Hughes (then partners in the UK firm of Coopers & Lybrand) were appointed Joint Provisional Liquidators by the High Court of Justice of England and Wales ("the Court") to manage the Company's affairs for the benefit of all its creditors and to consider the best way of effecting a return to them. On 29 December 2000 Christopher Hughes' appointment was terminated and he was replaced by David Andrew Vaughan. He in turn ceased to hold office on 31 July 2001 and was replaced by Douglas Nigel Rackham. The scheme of arrangement proposed in this document ("the Scheme") is designed to enable the Company to make the largest possible return to its Scheme Creditors (as defined in the Scheme) as soon as possible.

Why Have You Been Sent This Document?

A copy of this document has been sent, in most cases, to those parties in respect of whom the Company's records indicate that the Company may be responsible for some or all of their insurance or reinsurance cover, or because they might otherwise have a claim against the Company under an insurance or reinsurance contract. However, receipt of this document does not of itself mean that you are a creditor or potential creditor of the Company or that you will be affected by the Scheme. You may wish to ask your insurance broker, who should have received a copy of this document, for further details of your involvement with the Company.

What Is A Scheme Of Arrangement?

A scheme of arrangement is a compromise or arrangement between a company and some or all of its creditors governed by section 425 of the Companies Act 1985. A scheme becomes binding on those creditors affected by it (irrespective of whether they received notice of the scheme, voted for or against the proposals or did not vote at all) when:

- a majority in number, representing 75% in value of each class of those creditors entitled to do so, vote in person or by proxy in favour of the scheme at a specially convened meeting; and
- the Court subsequently makes an order approving the scheme; and
- an office copy of that order is delivered to the Registrar of Companies of England and Wales for registration.

How Will The Scheme Work?

The following summary is designed to provide you with a brief synopsis of the key features of the proposed scheme of arrangement. It should not be seen as a substitute for reading the Scheme itself and taking independent advice on it. Capitalised terms below are as defined in the Scheme.

- This is a reserving scheme of arrangement.
- The creditors can broadly be categorised as:
 - Oberon Pool Creditors, whose claims arise as a result of the Company having participated as an underwriter in the Oberon Pool;
 - E&A Pool Participants, being the eight Participants in the E&A Pools whose claims constitute the majority by value of the Company's liabilities;
 - E&A Pool Creditors, being cedants to the E&A Pools and the remaining participants in the E&A Pools; and
 - General Creditors, being creditors who do not fall within any of the above three categories.

- A proportion of the Company's assets will be set aside to form the Creditors' Fund, from which the claims of E&A Pool Creditors and General Creditors should be paid IN FULL in the normal course by the E&A Pool Manager. The fund will be capitalised on a prudent basis, allowing a margin for potential deterioration. In establishing the value of the assets to be set aside to form the Creditors' Fund no account will be taken of actual or potential set-off.
- An actuarial review of the Company's liabilities arising out of its participation in the E&A Pools will be carried out annually. If it appears that the solvency margin of the Creditors' Fund has fallen below a certain level, full set-off based on the rules which would apply in a liquidation will be applied before E&A Pool Creditors and General Creditors are paid. In the unlikely event that deterioration in reserves is such that even on a net basis the Creditors' Fund is insufficient to pay those creditors in full then they will only receive a dividend in respect of their claims.
- Oberon Pool Creditors will be paid IN FULL by St Paul Re in the normal course.
- E&A Pool Participants will be paid a share, calculated in accordance with a formula set out in the Scheme, of the Company's General Assets, after payment of, among other things, Scheme Expenses.
- The Scheme allows for commutations in full and final settlement of one or more of a creditor's Scheme Claims, or of all of the Liabilities owed to a particular creditor, subject to certain restrictions.
- The Scheme incorporates a bar on Proceedings by Scheme Creditors against the Company, except in certain circumstances. In general the Company will follow any settlements agreed with the rest of the participants in the E&A Pools.

A more detailed explanation of the key provisions of the Scheme is given in section 2 of the Explanatory Statement at pages 10 to 18.