ANNUAL REPORT AND FINANCIAL STATEMENTS
RANDALL & QUILTER INVESTMENT HOLDINGS LIMITED
31 DECEMBER 2006

R&Q

A member of the Randall Group

Financial Statements
for the year ended 31 December 2006

index

02	**Chairman's Statement**
03-08	**Report of the Directors**
09-10	**Independent Auditor's Report**
11	**Consolidated profit and loss account: Technical Account**
12	**Consolidated profit and loss account: Non-Technical Account**
13	**Consolidated balance sheet: Assets**
14	**Consolidated balance sheet: Liabilities**
15	**Company balance sheet**
16-17	**Consolidated cash flow statements**
18	**Other Statements**
19-54	**Notes to the Financial Statements**

Directors and Advisers

Directors

K. E. Randall
A. K. Quilter
M. E. Randall

Secretary

J. Watt

Registered Office

9-13 Fenchurch Buildings
London
EC3M 5HR

Bankers

National Westminster Bank plc
City of London Office
PO Box 12258
1 Princes Street
London
EC2R 8PA

Auditors

CLB Littlejohn Frazer
1 Park Place
Canary Wharf
London, E14 4HJ

Registered Number

3671097

Chairman's Statement

For the year ended 31 December 2006

2006 proved to be a watershed for the Randall Group. In February we agreed the termination of our longstanding relationship with Dukes Place and, thereafter, we were free to pursue acquisitions of portfolios of discontinued non-life insurance business for our own account. In July we completed the acquisition of three "Brandywine" reinsurance companies – ACE American Re, Brandywine UK Limited and Brandywine SANV – from the ACE Group. This substantially raised our profile as an acquirer of such solvent, legacy businesses. The year ended on a high note with the acquisition of Chevanstell Limited in November and Arran Insurance Company Limited in December.

A direct consequence of the above transactions is that our business focus has shifted from being merely a service provider to being a credible provider of complete "exit solutions" to insurance organisations. The Group now owns 8 such insurance companies all of which are in solvent run-off, with gross assets of £659.2m. The Group's net assets at December 2006 were £50.8m compared to just £13.0m in 2005.

We obtained regulatory consent for all of the acquisitions applied for and we are encouraged by this continuing support from insurance regulators for our involvement in the creation of finality solutions. We are also grateful for the continued support of The Royal Bank of Scotland which provided a structured finance package to meet our current and foreseeable working capital requirements and, importantly, to support our immediate funding needs for acquisitions.

We believe the outlook for our business is sound. There is increasing demand for finality solutions as investors in insurance organisations seek to offload discontinued portfolios and redeploy capital to their core businesses. We have a pipeline of further potential acquisitions and, to enable us to be more flexible in the structuring of transactions, we plan to establish a Class 3 reinsurer in Bermuda during 2007.

Our services division, which trades under the Cavell banner, continues to grow substantially and the division employs around 200 staff in its offices in the UK and the US. We plan to develop this area of our business by providing run-off services to the insurance companies we acquire as well as by winning further third party servicing contracts. We will also be looking for opportunities to expand further through acquisition.

The Group's combined operating profit after tax improved to £4.6m (2005: loss of £0.3m). Exceptional items, mostly representing the net discount to book value paid for assets acquired, bolstered the Group's overall profit after tax to £38.7m (2005: £1.2m).

The past year was demanding for everyone working within the Group. I would like to express my gratitude for every individual contribution. We approach the future with optimism. With the continued support and hard work of our staff, we expect to consolidate our position as one of the leading providers of exit solutions and services for legacy insurance businesses around the world.

K.E. Randall
Chairman and Chief Executive Officer

9 May 2007

Report of the Directors
For the year ended 31 December 2006

The Directors present their report together with the audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2006.

Principal Activities

The Company is a holding and investment company.

Group companies carry on business in the UK, Europe and North America as owners and managers of insurance companies in run-off, as purchasers of reinsurance receivables and as consultants for the insurance market.

Owners of Insurance Companies

The Group has expanded its ownership of insurance companies through the acquisition of a further five insurance companies in run-off based in the USA, UK and Belgium.

The Group now owns the following insurance companies all of which are in run-off:-

	Country of Incorporation	Acquisition Date
Owned at 1 January 2006		
Ludgate Insurance Company	UK	4 August 1992
La Metropole SA	Belgium	29 November 2000
Transport Insurance Company	USA	30 November 2004
Acquired in the year		
R & Q Reinsurance Company (UK) Limited	UK	4 July 2006
R & Q Reinsurance Company (Belgium)	Belgium	4 July 2006
R & Q Reinsurance Company	USA	4 July 2006
Chevanstell Limited	UK	10 November 2006
Arran Insurance Company Limited	UK	21 December 2006

The Royal Bank of Scotland has provided a structured finance package to support these acquisitions.

Insurance Services

In March 2006, the Company acquired 25% of the issued share capital of Cavell Management Services Limited ("CMSL") from Cavell Holdings Limited. The Company now owns 100% of the issued share capital of CMSL, a provider of insurance services in the UK.

CMSL is a Lloyd's approved service company. It is the appointed run-off manager of GoshawK Syndicate 102 and also provides services to insurance companies with legacy insurance portfolios in the UK, Europe and North America.

In April 2006, Cavell USA ("CUSA") purchased and cancelled 20% of its own shares from Dukes Place Holdings LP. The Group now owns 100% of the issued share capital of CUSA, a provider of insurance services in the US.

Report of the Directors (continued)
For the year ended 31 December 2006

Insurance Services (continued)

Trading as Cavell, the Group offers clients dedicated teams of professionals who are focussed on providing efficient and cost effective run-off management services. The aims of Cavell's service provision are to optimise liquidity and manage liabilities in accordance with individual client objectives.

The Group's Insurance Services Division now employs approximately 200 people in the UK and US, operating out of offices in London, Norwich, Maidstone, Philadelphia, Rhode Island and Boston.

During the year, the Insurance Services Division was awarded management contracts for the administration of R&Q Reinsurance Company, R&Q Reinsurance (UK) Limited, R&Q Reinsurance (Belgium), Chevanstell Limited and Arran Insurance Company Limited. These companies were all acquired during 2006 by the Group. In addition contracts relating to the administration of various Ace group entities were awarded to the Division during the year.

Results and Dividends

The results for the Group for the year ended 31 December 2006, are set out in the consolidated profit and loss account on pages 11 and 12.

The Directors declared and paid dividends in the year on the ordinary shares of £175,500 (2005: £Nil). The Company paid a dividend of £1,600,000 (2005 - £Nil) in the year on the Preference C Shares and £Nil (2005 - £60,000) on the Preference D shares.

Key Performance Indicators

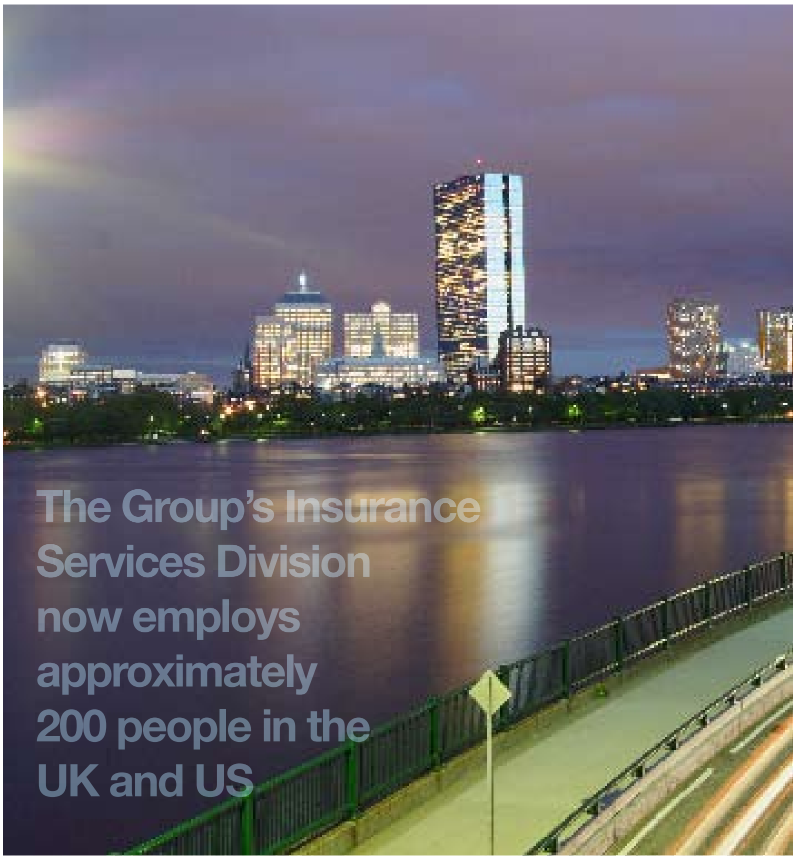
The Directors consider the following to be the key performance indicators of the Group:

	2006 £000	2005 £000
Profit before taxation	38,331	772
Gross Assets	659,162	136,563
Net Assets	50,835	12,975

Risk Management

The Directors have established a business ethos in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance.

The Directors recognise that the acquired insurance companies have different risk profiles from other members of the Group. This report separately sets out the Directors' approach to the strategic management of risks within the Group as a whole, as well as the responsibilities and the approach to the management of risk within the insurance companies and the service companies.



Report of the Directors (continued)
For the year ended 31 December 2006

Risk management – Group

Regulatory Risk

A number of the companies in the Group are regulated by the Financial Services Authority. A number of overseas subsidiaries are regulated in the countries in which they operate. Failure to comply with applicable regulations could result in a variety of sanctions. The Directors are responsible for ensuring that best practice is applied to a standard which ensures regulatory compliance.

Loss of key staff

The operations of the Group are reliant on key staff. The Directors believe that its Human Resources policies are appropriate to recruit and retain such staff.

Environmental Matters

Whilst the Directors do not consider that the business of an insurance group has a large adverse impact upon the environment, the directors of the subsidiary companies are encouraged to have regard for their environmental impact.

Risk Management – Insurance companies

The activities of the Group's insurance companies expose each of them to financial and non financial risks.

As reported in the principal accounting policies (Note 1) the Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of the insurance companies, except as referred to in note 29. Should any of the insurance companies cease to be able to continue as a going concern any loss to the Company and its other subsidiaries is restricted to the book value of their investment in that insurance company and any balances due by them.

Although the Directors strategically manage the risks within the Group, it is the responsibility of the directors of the insurance companies to adhere to the Group's ethos in managing their company's exposure to these risks and, where possible, introduce controls and procedures that mitigate the effects of the exposure to risk.

Insurance Risk

The very nature of insurance business is that insurers are exposed to the possibility that claims will arise on business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract. The main underwriting risks which affect the insurance companies are:

- Catastrophic events – the risk that catastrophic events occur which will lead to claims at a level not anticipated by the companies.
- Reserving – the risk that the reserves established by the companies at the previous year-end prove to be inadequate. In order to mitigate reserving risk, the companies use a number of approaches, including actuarial techniques, to project gross and net insurance liabilities.

Credit Risk on Receivables

Reinsurance recoverable is evaluated each quarter as to credit risk and existing bad debt provisions are evaluated as to adequacy.

Currency Risk

The insurance companies are exposed to currency risk in respect of liabilities, generated through regular trading activity, denominated in currencies other than Sterling. The most significant currencies to which the companies are exposed are the US Dollar and the Euro. Group policy requires that the directors seek to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The cash position of each of the insurance companies is monitored on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due. Funds required to meet immediate and short term needs are invested in short term deposits.
Funds in excess of those required to meet short term needs are managed by external fund managers. The investment performance of the fund managers is closely monitored throughout the year by each company's investment committee. The directors of each of the insurance companies seek to match the investment profile to the projected claims settlement pattern.

Interest Rate Risk

The insurance companies' main exposure to fluctuation in interest rates arises from the effect that this may have on the valuation of funds invested in bonds. In order to mitigate this risk, the directors, advised by external investment managers, monitor the economic situation to seek to anticipate any further interest rate movement and to take appropriate action to mitigate the impact on the value of investments held.

Risk Management – Service companies

The activities of the Group's service companies expose each of them to financial and non financial risks.

Although the Directors strategically manage the risks within the Group, it is the responsibility of the directors of the service companies to adhere to the Group's ethos in managing their company's exposure to these risks and, where possible, introduce controls and procedures that mitigate the effects of the exposure to risk.

Dependence on clients

The service companies derive most income from management contracts, which vary in length but most are for 5 years. As at the Balance Sheet date the major contracts all had in excess of 4 years to run.

Report of the Directors (continued)
For the year ended 31 December 2006

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The billing arrangements of the major management contracts are such that funds are received in advance, therefore mitigating liquidity risk for the companies. The cash position of each of the service companies is monitored on a regular basis to ensure that sufficient funds are available to meet liabilities as they fall due.

Share Capital

Details of the movements in share capital are given in Note 19 to the financial statements.

Directors

The present Directors are shown on page 1. M E Randall was appointed on 31 August 2006.

Charitable Donations

During the year the Group contributed £1,655 (2005: £10,500) for charitable purposes.

Employee Involvement

Review meetings are held with employees to discuss the financial position and prospects of the Group. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees.

Employment of Disabled Persons

The Company and its subsidiaries have continued their policy of offering equal rights to employment training, career development and promotion to all their employees including disabled employees.

Creditor Payment Policy

It is the Group's policy, whenever possible, to pay suppliers within 45 days.

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are individually aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- each director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

A resolution to reappoint CLB Littlejohn Frazer as auditors will be proposed at the forthcoming Annual General Meeting.

Report of the Directors (continued)
For the year ended 31 December 2006

Statement of Directors' Responsibilities

Company law requires 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 the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates have been used in the preparation of the Financial Statements. The Directors also confirm that applicable accounting standards have been followed subject to any material departures disclosed and explained in the notes to the Financial Statements.

The Directors are responsible for ensuring that the Report of the Directors and other information included in the annual report is prepared in accordance with Company law in the United Kingdom.

The Directors have prepared the Financial Statements on the going concern basis and have kept proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Signed by

J. Watt

Company Secretary

9 May 2007

Independent Auditors' Report

to the shareholders of Randall & Quilter Investment Holdings Limited

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Randall & Quilter Investment Holdings Limited for the year ended 31 December 2006, which comprise the Consolidated Technical and Non-Technical Profit and Loss Accounts, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, and the related notes 1 to 34. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, 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 shareholders those matters we are required to state to them in an auditor's 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the 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 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 Report of the Directors 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. This other information comprises only the Report of the Directors and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of 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 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 Group's and 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.

Independent Auditors' Report (continued)
to the shareholders of Randall & Quilter Investment Holdings Limited

Emphasis of matter - significant uncertainty in relation to technical provisions

In forming our opinion we have considered the adequacy of the disclosures made in Notes 1 and 2 to the Financial Statements. Significant uncertainty arises in the quantification of technical provisions because of the long tail nature of the business underwritten by the Group's insurance company subsidiaries in run-off. If further information becomes available to the directors of those companies which gives rise to material additional liabilities, the going concern basis might no longer be appropriate for those companies and adjustments would need to be made to reduce the value of their assets to their realisable amount and to provide for any further liabilities which might arise. Our opinion is not qualified in this respect.

Opinion

In our opinion the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and Company's affairs as at 31 December 2006 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In our opinion the information given in the Report of the Directors is consistent with the Financial Statements.

CLB Littlejohn Frazer

Chartered Accountants
and Registered Auditors

1 Park Place
Canary Wharf
London E14 4HJ

9 May 2007

Consolidated profit and loss account: Technical Account

For the year ended 31 December 2006

		2006		2005	
	Note	£000	£000	£000	£000
Gross Premiums Written					
Existing Operations		(2)		-	
Acquisitions		292		-	
		290		-	
Outwards Reinsurance Premiums		(46)		-	
Earned premiums, net of reinsurance			244		-
Investment return	3		7,134		453
Claims incurred, net of reinsurance:					
Claims paid:					
Gross amount		(25,583)		(5,505)	
Reinsurers' share		11,079		2,207	
		(14,504)		(3,298)	
Change in the provision for claims:					
Gross amount		29,063		(846)	
Reinsurers' share		(10,583)		4,986	
		18,480		4,140	
Changes in technical provisions, net of reinsurance			3,976		842
Net operating expenses	4		(7,281)		(1,637)
Other technical charges, net of reinsurance			(148)		(285)
Investment expenses and charges			(66)		(29)
Balance on the Technical Account, before exceptional items			3,859		(656)
Exceptional items:					
Expenses of solvent schemes of arrangement			-		(499)
Balance on the Technical Account			3,859		(1,155)
Analysis of Balance on the Technical Account					
Continuing operations	5		442		(1,155)
Acquisitions	5		3,417		-
			3,859		(1,155)

The accounting policies and notes on pages 19 to 54 form part of these Financial Statements.

Consolidated profit and loss account: Non-Technical Account

For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Balance on the Technical Account		3,859	(1,155)
Turnover			
Continuing Operations		14,901	15,085
Operating expenses		(14,324)	(14,170)
		577	915
Operating profit/(loss) before exceptional items and goodwill amortisation		4,436	(240)
Positive Goodwill amortisation	15	(1,006)	(162)
Negative Goodwill arising on acquisition	32	35,958	768
Exceptional items	7	(888)	120
Profit on ordinary activities before interest	8	38,500	486
Analysed between			
Continuing operations		544	486
Acquisitions		37,956	-
		38,500	486
Interest receivable	9	85	105
Interest payable	10	(748)	(132)
Other finance income	11	494	313
		(169)	286
Profit on ordinary activities before taxation		38,331	772
Taxation on profit on ordinary activities	14	377	393
Profit on ordinary activities after taxation		38,708	1,165
Minority interests		(47)	(228)
Profit for the financial year		38,661	937

The accounting policies and notes on pages 19 to 54 form part of these Financial Statements.

Consolidated balance sheet
As at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Assets					
Intangible assets	15		13,375		958
Investments					
Land and buildings	16	996		2,332	
Other financial investments		235,729		13,532	
Deposits with ceding undertakings		4,623		-	
			241,348		15,864
Reinsurers' share of technical provisions					
Claims outstanding	22		275,555		97,280
Debtors					
Debtors arising out of direct insurance operations		227		-	
Debtors arising out of reinsurance operations		23,540		7,699	
Other debtors	17	8,554		5,375	
			32,321		13,074
Other assets					
Tangible assets	18	308		1,324	
Cash at bank and in hand		91,940		6,504	
			92,248		7,828
Prepayments and accrued income					
Accrued interest and rent		2,865		120	
Other prepayments and accrued income		1,288		1,439	
			4,153		1,559
Total assets excluding pension scheme surplus			659,000		136,563
Pension scheme surplus	30		162		-
Total assets			**659,162**		**136,563**

The accounting policies and notes on pages 19 to 54 form part of these Financial Statements.

Consolidated balance sheet (continued)
As at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Liabilities					
Capital and reserves					
Called up share capital	19	-		-	
Share Premium Account	20	1,022		-	
Capital Redemption Reserve	20	134		-	
Profit and loss account	21	49,679		12,975	
Shareholders' funds attributable to equity interests			50,835		12,975
Minority interests in Subsidiaries			2		560
Technical provisions					
Claims outstanding	22		534,701		105,173
Provisions for other risks and charges	23		4,818		6,057
Deposits received from reinsurers			6,857		-
Creditors					
Creditors arising out of direct insurance operations		3,109		-	
Creditors arising out of reinsurance operations		15,436		1,074	
Amounts owed to credit institutions		11,959		555	
Other creditors including taxation and social security	24	26,954		7,111	
			57,458		8,740
Accruals and deferred income					
Other accruals and deferred income			4,491		2,559
Total liabilities excluding pension scheme deficit			659,162		136,064
Pension scheme deficit	30		-		499
Total liabilities			**659,162**		**136,563**

The Financial Statements were approved by the Board of Directors on 9 May 2007 and were signed on its behalf by:

A. K. Quilter
Director

The accounting policies and notes on pages 19 to 54 form part of these Financial Statements.

Company balance sheet
As at 31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Intangible assets	15	1	1
Tangible assets	18	-	2
Investments	16	20,432	2,660
		20,433	2,663
Current assets			
Debtors	17	459	679
Cash at Bank and in hand		406	-
		865	679
Creditors: amounts falling due within one year	24	(8,909)	(2,344)
Net current liabilities		(8,044)	(1,665)
Total assets less current liabilities		12,389	998
Creditors: amounts falling due after more than one year	24	(10,541)	-
		1,848	998
Capital and reserves			
Called up share capital	19	-	-
Share premium account	20	1,022	-
Capital redemption reserve	20	134	-
Profit and loss account	21	692	998
Equity Shareholders' funds		1,848	998

The Financial Statements were approved by the Board of Directors on 9 May 2007 and were signed on its behalf by:

A. K. Quilter
Director

The accounting policies and notes on pages 19 to 54 form part of these Financial Statements.

Consolidated cash flow statement

For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Net cash (outflow)/inflow from continuing operating activities	25	(14,750)	1,279
Returns on investments and servicing of finance	26	(151)	(27)
Taxation paid		(87)	(80)
Capital expenditure	26	(122)	(248)
Acquisitions	26	269,250	-
Equity dividends paid		(1,775)	-
Cash flow before financing		252,365	924
Financing	26	6,598	(3,442)
		258,963	(2,518)
Cash flows were invested as follows:			
Increase in cash holdings		92,973	732
Increase in bank overdraft		(528)	(187)
		92,445	545
Net portfolio investment:			
Sale of land and buildings		(1,300)	-
Sale of investments		(2,729)	(3,066)
Purchase of investments		170,547	3
		166,518	(3,063)
		258,963	(2,518)

The accounting policies and notes on pages 19 to 54 form part of these Financial Statements.

Movement in opening and closing portfolio investments net of financing
For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Net cash inflow for the year		92,445	545
Cash flow arising from:			
Portfolio investments		166,518	(3,063)
(Increase)/decrease in loans		(7,268)	3,442
		159,250	379
Movement arising from cash flows		251,695	924
Acquired with subsidiary undertakings			
Net investment portfolio		60,209	-
Change in market values and exchange rate effects		(13,166)	1,177
Total movement in portfolio investments net of financing		298,738	2,101
Portfolio investments net of financing at 1 January		17,968	15,867
Portfolio investments net of financing at 31 December	27	316,706	17,968

The accounting policies and notes on pages 19 to 54 form part of these Financial Statements.

Other statements

For the year ended 31 December 2006

Consolidated Statement of Total Recognised Gains and Losses

		2006		2005	
	Note	**£000**	**£000**	**£000**	**£000**
Profit for the financial year			38,661		937
Exchange (loss)/gain on consolidation			(640)		1,055
Actuarial gain on pension scheme	30	846		614	
Deferred tax charge on actuarial gain		(254)		(184)	
		592		430	
Minority Interest		-		(108)	
			592		322
Total recognised gains for the year			38,613		2,314
Prior period adjustment			-		99
Total recognised gains since last annual report			38,613		2,413

The prior period adjustment in 2005 relates to the first time adoption of FRS17 “Retirement Benefits”.

Reconciliation of Movements in Shareholders’ Funds

	Note	**2006 £000**	**2005 £000**
Profit for the year		38,661	937
Other recognised (losses)/gains in the year		(48)	1,377
Equity dividends declared and paid		(1,775)	-
Preference A and B shares issued	20	1,022	-
		37,860	2,314
Opening Shareholders’ funds		12,975	10,661
Closing Shareholders’ funds		50,835	12,975

The accounting policies and notes on pages 19 to 54 form part of these Financial Statements.

Notes to the Financial Statements

For the year ended 31 December 2006

1. Principal accounting policies

Basis of preparation

The Group Financial Statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The balance sheet of the Parent Company is prepared in accordance with the provisions of Section 226 of, and Schedule 4 to, the Companies Act 1985. The Financial Statements have also been prepared in accordance with applicable Accounting Standards in the United Kingdom and under the historical cost accounting rules, modified to include the revaluation of investments. Except where stated the Financial Statements comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers dated December 2005 and revised in December 2006 ("the SORP").

A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of consolidation

The Group Financial Statements consolidate the results of the Company and all its subsidiaries up to 31 December 2006. Subsidiaries purchased during the year are accounted for as acquisitions and their results are included from the date of purchase.

As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the parent Company is presented. The profit dealt with in the Financial Statements of the parent Company is £1,603,000 (2005: profit of £301,000).

Basis of accounting for general insurance business

All classes of general insurance business are accounted for on an annual basis.

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the provisions for claims outstanding and the recoveries due from reinsurers established in the insurance company subsidiaries and shown in the consolidated balance sheet. Further details of the uncertainties inherent in estimating technical reserves are set out in Note 2. The ultimate costs of claims and the amounts ultimately recovered from reinsurers could vary materially from the amounts established and could therefore have a materially adverse affect on the ability of each insurance company subsidiary to meet its liabilities in full.

Notwithstanding this significant uncertainty, the Financial Statements of insurance company subsidiaries have been prepared and have been consolidated on a going concern basis since the Directors of this Company and of those subsidiaries are of the opinion, based on the information currently available, that they will continue in operational existence and be able to meet all their liabilities and obligations for the foreseeable future.

In the event that further information were to become available to the Directors of an insurance company subsidiary which gave rise to material additional liabilities, the going concern basis might no longer be appropriate for that company and adjustments would have to be made to reduce the value of its assets to their realisable amount, and to provide for any further liabilities which might arise.

Notes to the Financial Statements (continued)
For the year ended 31 December 2006

1. Principal accounting policies (continued)

Significant uncertainty in technical provisions (continued)

The Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of any insurance company subsidiary in run-off, except as referred to in note 29. Should any insurance company subsidiary cease to be able to continue as a going concern in the light of further information becoming available, any loss to the Company and its other subsidiaries would thus be restricted to the book value of their investment in and amounts due from that subsidiary. At 31 December 2006 the aggregate amount of the Group's investment in insurance company subsidiaries at 31 December 2006 was £23.8m and the aggregate balances due to them was £5.2m. At 31 December 2006 the net assets, at year end exchange rates, included in the Group consolidated balance sheet attributable to the insurance company subsidiaries amounted in the aggregate to £47.4m (2005: £11.0m).

Premiums

No new business is written by the insurance company subsidiaries as they are in run-off. Premium and reinsurance premium adjustments are recognised in the year that they arise.

Turnover and income recognition

Turnover represents the value of management and consultancy fees receivable, the value of debt collection fees receivable and the proceeds of the sale or recovery of purchased reinsurance receivables. Turnover is stated excluding any applicable value added tax.

Management and Consultancy Fees

Management and consultancy fees are recognised when the right to such fees is established through a contract and to the extent that the services concerned have been performed.

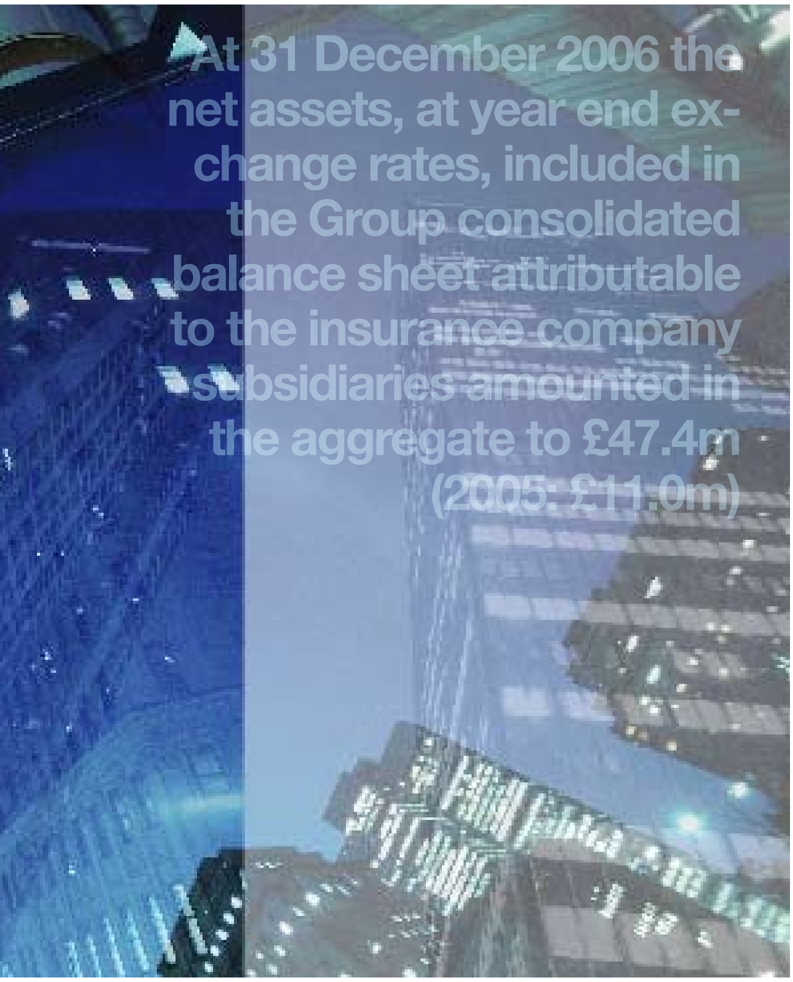
Certain run-off management fees received by non-insurance company subsidiaries are paid by insurance company subsidiaries. Generally those costs of the insurance company subsidiaries are charged against the claims handling costs provision within their claims outstanding technical provisions, (see Note 22). Schedule 4A to the Companies Act 1985 generally requires income and expenditure between undertakings included in consolidated Financial Statements to be eliminated in preparing the Group Financial Statements. However, in the opinion of the Directors, to do so in relation to these run-off management fees would result in the Financial Statements failing to give a true and fair view of the results of the insurance company subsidiaries in the Technical Account and of the non-insurance Group companies in the Non-technical Account.

Consequently, the management fees paid by the insurance company subsidiaries to the non-insurance company subsidiaries and included in the Non-Technical account have not been eliminated against the related costs of the insurance company subsidiaries within the Technical Account. The amounts of such fees are shown in Note 6.

Debt collection fees

Debt collection fees are recognised when the right to such fees is established through a contract and either the debt has been collected or the services concerned have been performed at the Balance Sheet date and the Group has received confirmation from the debtor that the fee will be paid.

Notes to the Financial Statements (continued)
For the year ended 31 December 2006



1. Principal accounting policies (continued)

Turnover and income recognition (continued)

Purchased reinsurance receivables

Purchased reinsurance receivables are generally purchased at a discount to their principal amount. They are recorded at cost. Such receivables are shown in debtors and stated at the lower of cost and net realisable value.

When receivables are purchased in bulk, the Directors allocate the cost to individual or groups of receivables based on the characteristics and quality of the respective elements.

When purchased reinsurance receivables are realised, the book value of such receivables is charged to the profit and loss account and shown separately as attributable cost of reinsurance receivables.

Proceeds arising from the sale or recovery of purchased reinsurance receivables are recognised when received.

Investment Income

Investment income of the insurance company subsidiaries is included in the Technical Account.

Investment income of other Group companies is included in the Non-technical Account.

Claims Incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

Outwards reinsurance recoveries are accounted for in the same period as the related claim.

Claims Outstanding

Provision is made in insurance company subsidiaries for the full estimated costs of claims notified but not settled, including claims handling costs, on the basis of the best information available, taking account of inflation and increasing court awards. The directors of the insurance company subsidiaries have established such amounts on the basis of their own investigations and with the assistance of run-off managers and independent actuaries. Deductions are made for salvage and other recoveries as appropriate.

The provision for claims incurred but not reported (“IBNR”) in insurance company subsidiaries has been based on a number of factors including previous experience in claims and settlement patterns, the nature and amount of business written, inflation, the possibility of non-recovery of reinsurance and the latest available information.

Where all or parts of an insurance company subsidiary’s claims are subject to a solvent scheme of arrangement, only claims admitted into the scheme rank as liabilities. At the Balance Sheet date all such claims are included at their agreed or determined amount or, where not agreed or determined, at the directors’ best estimate of the amounts which would ultimately be payable to creditors admitted into the Scheme.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

1. Principal accounting policies (continued)

Claims Outstanding (continued)

Neither the Outstanding Claims nor the provisions for IBNR have been discounted.

The uncertainties which are inherent in the process of estimating are such that, in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ from that presently estimated. Any differences between provisions and subsequent settlements are dealt with in the general business technical account in the year which they arise. Having regard to the significant uncertainty inherent in the business of the insurance company subsidiaries as explained in Note 2, and in the light of the information presently available, in the opinion of the Directors the provisions for Outstanding Claims and IBNR in the consolidated Financial Statements are fairly stated.

Claims handling costs

Full provision is made for all costs of running off the business of the insurance company subsidiaries to the extent that the provision exceeds the estimated future investment return expected to be earned by those subsidiaries. Changes in the amount of the estimates of such costs and future investment return are reflected in the year in which the estimates are changed.

Structured settlements

Certain insurance company subsidiaries have entered into structured settlements whereby settlements of claims have been effected by the purchase of annuities from third party life insurance companies in favour of the claimants. Provided that the life insurance company continues to meet the annuity obligations, no further liability will fall on the insurance company subsidiary; however if the life insurance company fails to meet the annuity obligations the liability for any remaining payments due under the annuity will revert to the relevant subsidiary. No provision is made for the potential exposure to such structured settlements as, in the opinion of the Directors having regard to the security ratings of the third party life insurers, the possibility of any further liability falling on the insurance company subsidiaries is remote.

The SORP recommends that the gross amount of all obligations due to claimants under structured settlements should be recognised as a liability in the balance sheet and an equal and opposite amount should be recognised as an asset to reflect the obligation of the third party life insurance companies to pay the related annuities. In the opinion of the Directors, since the resulting liabilities and assets will not be reflected as cash flows of the Group, and the liability of group companies under structured settlements is contingent on the failure of the related third party life insurance companies, and the inclusion of such liabilities and assets would have no effect on the results for the year or the net assets of the Group, the inclusion of the gross potential liabilities and related assets in the consolidated balance sheet would not be useful for readers of the accounts.

Should the Directors become aware that a third party life insurance company responsible for the payment of an annuity under a structured settlement may not be in a position to meet its annuity obligations in full, provision will be made for any liability likely to revert to the relevant subsidiary.

Notes to the Financial Statements (continued)
For the year ended 31 December 2006

1. Principal accounting policies (continued)

Structured settlements (continued)

Equivalent disclosure of the potential liabilities under structured settlements is made in Note 29.

Exceptional items

Exceptional items are material items which fall within the ordinary activities of the Group but which need to be disclosed by virtue of their size or incidence if the Financial Statements are to give a true and fair view.

Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions; monetary assets and liabilities at the Balance Sheet date are translated at year-end rates of exchange. All exchange differences thus arising are included in the Consolidated Profit and Loss Account.

On consolidation, assets and liabilities of overseas subsidiaries are translated at year-end rates of exchange and Profit and Loss Account items at average rates. All exchange differences arising on consolidation are dealt with through reserves.

Taxation

Taxation charged in the profit and loss account is based on the profits of the year as determined in accordance with the relevant tax legislation together with adjustments for prior years.

Deferred Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

Deferred tax is not provided on any potential future remittances of past earnings by the Group's overseas subsidiaries unless such dividends are accrued as receivable or there is a binding agreement to distribute such earnings.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

1. Principal accounting policies (continued)

Tangible assets

The cost of tangible assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the costs of tangible assets, less their estimated residual values, on a straight line basis over the expected useful economic life of the assets concerned. The principal rates per annum used for this purpose are:

	%
Computer equipment	25-33 1/3
Major software systems	20
Motor vehicles	25
Office equipment/refurbishment	8-50
Leasehold improvements	Term of lease

No depreciation is provided on group occupied properties as the amount would not be material.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Leasing agreements which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases.

The interest element of the rental obligation is charged to the Profit and Loss Account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Employee Benefit Trust

The Group makes contributions to an Employee Benefit Trust ("EBT"). The assets and liabilities of the EBT are held on the balance sheet until such time as the contributions vest unconditionally with identified beneficiaries when the amount is expensed through the profit and loss account.

Pre-contract costs

Directly attributable pre-contract costs are recognised as an asset when it is virtually certain that a contract will be obtained and the contract is expected to result in future net cash inflows in excess of any amounts recognised as an asset.

Pre-contract costs are charged to the profit and loss account over the shorter of the life of the contract and five years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

1. Principal accounting policies (continued)

Investments

Group

Investment properties are valued at market value. Valuations are carried out by independent professionally qualified valuers every three years. In the intervening years, these valuations are reviewed by the Directors on the basis of independent professional advice, and any changes in values are accounted for as value adjustments.

Listed investments held by insurance company subsidiaries are stated at mid-market value on the Balance Sheet date. Unlisted investments are valued by the Directors on a prudent basis having regard to their likely realisable value.

Company

Investments in Group undertakings and associates are stated at cost less provisions for impairment.

Goodwill

Goodwill arising on acquisitions and consolidation represents the difference between the consideration paid, the fair value of equity and other instruments issued and the costs directly attributable to the acquisition or (in the case of Ludgate Insurance Company Limited) the carrying value at 1 January 2000, and the fair value of the identifiable net assets acquired or consolidated.

Positive goodwill arising on insurance company acquisitions is amortised through the profit and loss account over the period of the run off of the insurance subsidiary involved. This amortisation is weighted by reference to the projected settlement pattern of the obligations which can exceed 20 years in some cases. For non insurance company acquisitions the amortisation period is the useful economic life, which is estimated by the Directors to be 10 years. The useful economic life is reviewed annually for any impairment in value.

Negative goodwill arising on the acquisition of subsidiaries which is in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to be benefited.

For the purposes of assessing the fair value of the net assets of insurance companies acquired, the Directors adopt the same accounting policies for determining the amounts of assets and liabilities as are applied in these Financial Statements. In particular the provisions for outstanding claims and IBNR are not discounted, and future investment return is recognised only to the extent of provisions for claims handling and all other costs to the conclusion of the run off of the insurance company subsidiary acquired.

When assessing the amount of future investment income to be recognised, the investment return and the claims handling and all other costs of all the insurance company subsidiaries are considered in aggregate.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

1. Principal accounting policies (continued)

Goodwill (continued)

The SORP recommends that, for determining the fair values of insurance companies acquired, the full amount of investment return should be recognised, including any in excess of provisions for claims handling and other costs, with such excess being recognised as an intangible asset to be amortised over the period of the run off. In the opinion of the Directors the recognition of such an asset in the context of an acquired insurance company in run off is not appropriate in the context of the discontinued nature of run off business and the significant uncertainty that exists in the estimation of the provisions for outstanding claims and IBNR. Further, the treatment is inconsistent with the SORP's recommended treatment of insurance business in run off.

Details of the fair values and negative goodwill arising on the acquisitions of insurance company subsidiaries in run off in the year are set out in Note 32.

Pension costs

The Group makes contributions to defined contribution schemes, and a defined benefit scheme.

The pension cost in respect of the defined contribution schemes represents the amounts payable by the Group for the year. The funds of the schemes are administered by the trustees, and are separate from the Group. The Group's liability is limited to the amounts of the contributions.

The defined benefit scheme is funded by contributions from a subsidiary company and its assets are held in a separate trustee administered fund. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme deficit or surplus (to the extent that it is recoverable) is recognised in full. The movement in the surplus or deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

2. Estimation techniques and uncertainties in insurance company subsidiaries

The Group owns a number of insurance companies in run-off. In accordance with the SORP the Financial Statements include provisions for all outstanding claims and IBNR, for related reinsurance recoveries and for all costs expected to be incurred in the completion of the run off.

The provision for claims outstanding and IBNR is based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques. There are significant uncertainties inherent in the estimation of each insurance company subsidiary's insurance liabilities and reinsurance recoveries. There are many assumptions and estimation techniques that may be applied in assessing the amount of those provisions which individually could have a material impact on the amounts of liabilities, related reinsurance assets and reported shareholders' funds disclosed in the Financial Statements. Actual experience will often vary from these assumptions, and any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified. Potential adjustments arising in the future could, if adverse in the aggregate, exceed the amount of shareholders' funds of an insurance company subsidiary.

2. Estimation techniques and uncertainties in insurance company subsidiaries (continued)

The business written by the insurance company subsidiaries consists in part of long tail liabilities, including Asbestos, Pollution, Health Hazard and other US liability insurance. The claims for this are typically not settled until several years after policies have been written. Furthermore, much of the business written by these companies is re-insurance and retrocession of other insurance companies, which lengthens the settlement period.

Significant delays occur in the notification and settlements of certain claims and a substantial measure of experience and judgement is involved in making the assumptions necessary for assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the Balance Sheet date. The gross provisions for claims outstanding and related reinsurance recoveries are estimated on the basis of information currently available. 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.

The provisions for claims outstanding includes significant amounts in respect of notified and potential IBNR claims for long tail liabilities. The settlement of most of these claims is not expected to occur for many years, and there is considerable uncertainty as to the timing of such settlements and the amounts at which they will be settled.

While many claims are clearly covered and are paid quickly, many other claims are subject to significant disputes, for example over the terms of a policy and the amount of the claim. The provisions for disputed claims are based on the view of the directors of each insurance company subsidiary as to the expected outcomes of such disputes. If the outcome differs substantially from expectation there could be a material impact on the Group's liabilities. Claim types impacted by such disputes include asbestos, pollution and certain health hazards and retrocessional reinsurance claims arising out of the Exxon Valdez oil spill and the first Gulf War.

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge.

Asbestos, pollution and health Hazard claims

The estimation of the provisions for the ultimate cost of claims for asbestos, pollution and health hazard is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos, pollution and health hazard claims with the same degree of reliability as with other types of claims. Consequently, traditional techniques for estimating claims provisions cannot wholly be relied upon. The Group employs further techniques which utilise the exposure to these losses by contract to determine the claims provisions.

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

2. Estimation techniques and uncertainties in insurance company subsidiaries (continued)

Operating expenses

The provision for the cost of handling and settling outstanding claims to extinction and all other costs of managing the run off is based on an analysis of the expected costs to be incurred in run-off activities, incorporating expected savings from the reduction of transaction volumes over time.

The period of the run off may be between 5 and 50 years depending upon the nature of the liabilities within each insurance company subsidiary. Ultimately, the period of run-off is dependant on the timing and settlement of claims and the collection of reinsurance recoveries; consequently similar uncertainties apply to the assessment of the provision for such costs

Reinsurance Recoveries

Reinsurance recoveries are included in respect of claims outstanding (including IBNR claims) and claims paid after making provision for irrecoverable amounts.

The reinsurance recoveries on IBNR claims are estimated based on the recovery rate experienced on notified and paid claims for each class of business.

The insurance company subsidiaries are exposed to disputes on contracts with their reinsurers and the possibility of default by reinsurers. In establishing the provision for non-recovery of reinsurance balances the directors of each insurance company subsidiary consider the financial strength of each reinsurer, its ability to settle their liabilities as they fall due, the history of past settlements with the reinsurer, the Group's own reserving standards and have regard to legal advice regarding the merits of any dispute.

3. Investment Return

	2006 £000	2005 £000
Investment income of insurance company subsidiaries:-		
Income from listed investments	2,035	508
Income from other investments	382	55
Interest received	5,029	64
Realised gains/(losses)	37	(91)
Unrealised losses	(349)	(83)
	7,134	453

4. Net Operating Expenses: Technical Account

	2006 £000	2005 £000
Administrative expenses	7,281	1,637

5. Segmental Information

a) Analysis by business Category

	Insurance Companies		Other Group Companies		Group	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
Turnover	-	-	14,901	15,085	14,901	15,085
Profit/(loss) after interest before goodwill and exceptional Items	3,375	(923)	892	1,468	4,267	545
Positive goodwill	(505)	(162)	(501)	-	(1,006)	(162)
Negative goodwill	35,397	768	561	-	35,958	768
Exceptional items	-	(499)	(888)	120	(888)	(379)
Profit/(loss) before taxation	38,267	(816)	64	1,588	38,331	772

	2006 £m	2005 £m
Geographical analysis of turnover		
United Kingdom	8.2	8.8
Rest of the World	6.7	6.3
	14.9	15.1

	2006 £m	2005 £m
Net Assets by business category		
Owned insurance companies	47.4	10.8
Other group companies	3.4	2.7
	50.8	13.5

No new insurance business was written in the year.

5. **Segmental Information (continued)**

b) Analysis of Profit on ordinary activities before interest between continuing operations and acquisitions

Part of the Group's activity is to acquire and manage legacy insurance portfolios. In the Financial Statements of individual insurance company subsidiaries such activities are treated as discontinued. In these Financial Statements they are treated as continuing operations in accordance with FRS3.

	Continuing operations	2006 Acquisitions	Total	2005 Total
	£000	£000	£000	£000
Earned premiums, net of reinsurance	-	244	244	-
Investment Return	505	6,629	7,134	453
Claims incurred, net of reinsurance Claims paid:				
Gross amount	(6,716)	(18,867)	(25,583)	(5,505)
Reinsurer's share	1,437	9,642	11,079	2,207
	(5,279)	(9,225)	(14,504)	(3,298)
Change in technical provisions, net of reinsurance				
Gross amount	1,973	27,090	29,063	(846)
Reinsurer's share	4,838	(15,421)	(10,583)	4,986
	6,811	11,669	18,480	4,140
Changes in technical provision, net of reinsurance	1,532	2,444	3,976	842
Net operating expenses	(1,965)	(5,316)	(7,281)	(1,637)
Other technical charges, net of reinsurance	407	(555)	(148)	(285)
Investment expenses and charges	(37)	(29)	(66)	(29)
Expenses of solvent schemes of arrangement	-	-	-	(499)
Balance of the Technical Account	442	3,417	3,859	(1,155)
Turnover	14,901	-	14,901	15,085
Operating Expenses	(13,971)	(353)	(14,324)	(14,170)
Positive Goodwill amortisation	(501)	(505)	(1,006)	(162)
Negative Goodwill arising on acquisitions	561	35,397	35,958	768
Exceptional items	(888)	-	(888)	120
Profit before interest	544	37,956	38,500	486

There were no acquisitions in 2005.

6	**Turnover: Non-Technical Account**	**2006 £000**	**2005 £000**
	Turnover includes run-off management fees received by non-insurance company subsidiaries from insurance company subsidiaries, see Note 1 - Turnover	3,317	477

7.	**Exceptional items: Non-Technical Account**	**2006 £000**	**2005 £000**
	Software impairment	(888)	-
	Revaluation of investment properties	-	120
		(888)	120

8.	**Profit on ordinary activities before interest**	**2006 £000**	**2005 £000**
	This is after charging/(crediting):		
	Depreciation of tangible assets	221	474
	Profit on sale of fixed assets	-	(17)
	Operating leases – land and buildings	540	360
	Operating leases – other	26	32
	Payment to employee benefit trust	400	-
	Amortisation of goodwill	1,006	162
	Auditor remuneration		
	Fees payable to the Company's auditor for the audit of the annual accounts	34	23
	Fees payable to the Company's auditor and its associates for other services provided to the Company and its subsidiaries:		
	The audit of the Company's subsidiaries under legislative requirements:		
	The Company's auditor	186	84
	Its associates	125	67
		311	151
	Other services under legislative requirements	23	5
	Services relating to corporate finance transactions		
	Pre-acquisition due diligence and advice	61	15
	Post-acquisition financial review	88	-
	All other services		
	Non-regulatory reporting on internal controls and corporate governance matters	193	-
	Advice on financial and accountancy matters	40	46

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

9. Interest receivable

	2006 £000	2005 £000
Bank interest receivable	85	105
	85	105

10. Interest payable

	2006 £000	2005 £000
Bank loan and overdraft interest payable	162	72
Preference D Share dividend and premium on redemption	586	60
	748	132

11. Other finance income

	2006 £000	2005 £000
Expected return on pension scheme assets	1,608	1,406
Interest on pension scheme liabilities	(1,114)	(1,093)
	494	313

12. Staff costs (including Directors)

	2006 £000	2005 £000
Wages and salaries	9,542	8,782
Social security costs	1,436	1,325
Other pension costs	1,371	551
	12,349	10,658

Pension costs include an exceptional past service cost under FRS17 of £461,000 (2005: £Nil) as set out in Note 30 to these Financial Statements.

The average number of persons whose employment costs were charged to the Group during the year was:

	2006 No.	2005 No.
Group investment activities	12	11
Insurance services	198	176
	210	187

Certain employees working in or for the insurance company subsidiaries are employed by the insurance services subsidiaries.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

13. Directors' emoluments	2006 £000	2005 £000
Aggregate emoluments	433	534
Company pension contributions	22	19
	455	553
Details of the highest paid director:		
Aggregate emoluments	242	319

There are benefits accruing to 1 Director (2005: 1 Director) under defined contribution pension schemes.

14. Taxation	2006 £000	2005 £000
Analysis of charge in year		
Current tax:		
UK Corporation tax on profit for the year	352	30
Adjustments in respect of previous years	(4)	3
Foreign tax	109	89
Total current tax	457	122
Deferred tax:		
Origination and reversal of timing differences	(834)	(515)
Tax on profit on ordinary activities	(377)	(393)

14. Taxation (continued)

Factors affecting tax charge for year

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2006 £000	2005 £000
Profit on ordinary activities before tax	38,331	772
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	11,499	231
Effects of:		
Permanent differences	(9,077)	(150)
Capital allowances for year in excess of depreciation	-	13
Utilisation of tax losses	(2,999)	(1,508)
Other timing differences	929	1,398
Unrelieved losses	66	300
US tax rate differences	73	(51)
Adjustments to tax charge in respect of previous years	(4)	3
Other timing differences – pension schemes	(30)	(114)
Current tax charge for year	457	122

Factors that may affect future tax charges

The Group has trading losses of approximately £76.0m available in various group companies available to be carried forward against future trading profits of those companies. The recovery of these losses is uncertain and no deferred tax asset has been provided in respect of these losses; should it become possible to offset these losses against taxable profits in future years the Group tax charge in those years will be reduced accordingly.

15. Intangible assets
The Group

	Positive Goodwill £000	Patents £000	Total £000
Cost			
At 1 January 2006	1,589	1	1,590
Additions during year (note 32)	13,423	-	13,423
At 31 December 2006	15,012	1	15,013
Amortisation			
At 1 January 2006	632	-	632
Charge for the year	1,006	-	1,006
At 31 December 2006	1,638	-	1,638
Net book value at 31 December 2006	13,374	1	13,375

15. Intangible assets (continued)
The Group (continued)

	Positive Goodwill	Patents	Total
	£000	£000	£000
Net book value at 31 December 2005	957	1	958

The Company

	Patents	Total
	£000	£000
Cost and net book value		
At 1 January and 31 December 2006	1	1

16. Investments

The Group

Land and Buildings	2006 Group £000	2005 Group £000
Freehold properties	996	2,332

A freehold property held for the Group's occupation by an insurance company subsidiary was valued at £500,000 in October 2005 by DTZ Debenham Tie Leung. The historic cost was £210,000. This property was sold during 2006 to Mr K E Randall, a Director, and his wife at the market value as at 31 December 2005.

Freehold properties were held for investment at 31 December 2005 with a value of £1,832,000. The major part of the investment property situated in the UK was sold to a third party, with the retained part held as an investment. The market value of the retained part has been valued by the Directors having regard to the value of the part sold. The latest valuations of properties situated overseas were carried out in March 2006 by John Cheetham, Immobiliere en Provence. The historic cost of these properties is £996,043.

Other financial investments	Market Value	
	2006 £000	2005 £000
Shares and other variable yield securities	-	207
Debt and other fixed interest securities	228,552	13,208
Deposits with credit institutions	7,172	-
Other	5	117
	235,729	13,532
Listed	228,552	13,208
Unlisted	7,177	324
	235,729	13,532

16. Investments (continued)

The Company

	Investment in Subsidiary Undertakings	Loans to Subsidiary Undertakings	Total
	£000	**£000**	**£000**
Cost			
At 1 January 2006	834	2,076	2,910
Additions in the year	15,074	2,890	17,964
Repayments during the year	-	(192)	(192)
At 31 December 2006	15,908	4,774	20,682
Provision for impairment			
At 1 January 2006	(250)	-	(250)
At 31 December 2006	(250)	-	(250)
Net book value			
At 31 December 2006	15,658	4,774	20,432
At 31 December 2005	584	2,076	2,660

The loans to Subsidiary Undertakings are:-

(a) An unsecured loan of $1,050,000 due for repayment on 23 December 2009. Interest is payable at 1% over the United States prime rate.

(b) An unsecured loan of $1,875,000 due for repayment in five annual instalment of $375,000 commencing on 1 July 2006. Interest is payable at 1% over the United States prime rate. As at 31 December 2006, the balance due on this loan was $1,500,000.

(c) A subordinated loan of £375,000 provided to Cavell Managing Agency Limited. This loan is non interest bearing and is not repayable before 31 December 2007.

(d) An unsecured loan of $5,664,000 in relation to the acquisition by the subsidiary undertaking of R&Q Reinsurance Company. It is non interest bearing and is repayable only out of realisations received from R&Q Reinsurance Company.

Since 31 December 2006, the Company has agreed to capitalise the two loans detailed at (a) and (b) above as additional share capital in the relevant subsidiary undertaking.

The Company

The Company had investments in the following principal active subsidiary undertakings at 31 December 2006, all of which are unlisted.

16. Investments (continued)

The Company (continued)

	Country of incorporation/ registration	% of ordinary shares held:		Overall effective % of share capital held
		The Company	Subsidiary undertakings	
Insurance Companies in Run-off				
Ludgate Insurance Company Ltd	England	-	100	100
Transport Insurance Company	USA		100	100
La Metropole SA	Belgium	100	-	100
R & Q Reinsurance Company (UK) Ltd	England	100	-	100
R & Q Reinsurance Company	USA	-	100	100
R & Q Reinsurance Company (Belgium)	Belgium	-	100	100
Chevanstell Ltd	England	100	-	100
Arran Insurance Company Ltd	England	-	100	100
Insurance Services Division				
Cavell Management Services Ltd	England	100	-	100
Randall & Quilter Consultants Ltd	England	100	-	100
Cavell USA, Inc	USA	-	100	100
Cavell BCS, Inc	USA	-	100	100
EC3 Solutions Ltd	England	60	-	60
Peter Blem Adjusters Ltd	England	-	100	100
Cavell Managing Agency Ltd	England	100	-	100
Chevanstell Management Ltd	England	-	100	100
Reinsurance Finance Management Ltd	England	75.5	-	75.5
Investment / Property Companies				
Oast Holdings Ltd	England	100	-	100
Randall & Quilter France 43 SA	France	-	100	100
Randall & Quilter France 58 SA	France	-	100	100
Malling Investments Ltd	England	-	100	100
Intermediate holding companies/others				
Ken Randall Associates Ltd	England	100	-	100
Cavell America, Inc	USA	100	-	100
Instech Corporation	USA	-	100	100
Renaissance Capital Partners Ltd	England	100	-	100

17. Other debtors

The Group	**2006 £000**	**2005 £000**
Trade debtors	2,321	3,407
Other debtors	3,101	1,910
Corporation tax	50	-
Deferred tax (note 23)	3,082	58
	8,554	5,375

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

17. Other debtors (continued)

The Company	**2006 £000**	**2005 £000**
Amounts due from subsidiaries	31	432
Other debtors	3	24
Prepayments and accrued income	425	223
	459	679

18. Tangible assets

	Computer equipment and software	**Motor Vehicles**	**Office equipment and fittings**	**Leasehold improve-ments**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
The Group					
Cost					
At 1 January 2006	2,432	61	565	70	3,128
Exchange adjustments	(169)	(1)	(8)	-	(178)
Additions	146	-	19	-	165
Disposal	(6)	-	-	-	(6)
At 31 December 2006	2,403	60	576	70	3,109
Depreciation					
At 1 January 2006	1,355	26	355	68	1,804
Exchange adjustments	(103)	(1)	(5)	-	(109)
Charge for the year	101	11	106	2	220
Impairment	892	-	-	-	892
Disposal	(6)	-	-	-	(6)
At 31 December 2006	2,239	36	456	70	2,801
Net book value at 31 December 2006	164	24	120	-	308
Net book value at 31 December 2005	1,077	35	210	2	1,324

	Leasehold improvements
The Company	**£000**
Cost	
At 31 December 2006	70
Depreciation	
At 1 January 2006	68
Charge for the year	2
At 31 December 2006	70
Net book value at 31 December 2006	-
Net book value at 31 December 2005	2

19. Share Capital

	2006 Number	2006 £	2005 Number	2005 £
Authorised				
Ordinary Shares 1p each	100,000	1,000	100,000	1,000
Preference A Shares of £1 each	1	1	-	-
Preference B Shares of £1 each	1	1	-	-
Preference C Shares of £1 each	120,000	120,000	120,000	120,000
Preference D Shares of £1 each	250,000	250,000	250,000	250,000
	470,002	371,002	470,000	371,000
Allotted, called up and fully paid				
Ordinary Shares 1p each	25,000	250	25,000	250
Preference A Shares of £1 each	1	1	-	-
Preference B Shares of £1 each	1	1	-	-
Preference D Shares of £1 each	116,000	116,000	250,000	250,000
	141,002	116,252	275,000	250,250
Allotted, nil called				
Preference C Shares of £1 each	120,000	-	120,000	-
	261,002	116,252	395,000	250,250
Included in:				
Shareholders Funds				
Ordinary Shares 1p each	25,000	250	25,000	250
Preference A Shares of £1 each	1	1	-	-
Preference B Shares of £1 each	1	1	-	-
Preference C Shares of £1 each	120,000	-	120,000	-
	145,002	252	145,000	250
Liabilities				
Preference D Shares of £1 each	116,000	116,000	250,000	250,000

During the year 1 Cumulative Redeemable Preference A share and 1 Cumulative Redeemable Preference B Share of £1 each were issued.

Redemption of D preference shares

On 6 July 2006, 134,000 of the Preference D shares were redeemed by the Company at £5 per share.

Cumulative Redeemable Preference Shares

Preference A, B and C Shares have rights, inter alia, to receive distributions in priority to Ordinary shareholders of distributable profits of the Company derived from certain subsidiaries:

- Preference A Share, one half of all distributions arising from the Group's investment in R&Q Reinsurance up to a maximum of $5m.
- Preference B Share, one half of all distributions arising from the Company's investment in R&Q Reinsurance Company (UK) Ltd up to a maximum of $10m.

19. Share Capital (continued)

Cumulative Redeemable Preference Shares (continued)

- Preference C Shares, a cumulative cash dividend of 5% per annum and all distributions arising from the Company's investment in Cavell Management Services Ltd.

Preference D Shares have rights to a cumulative dividend of 10% per annum; at least one half of the Company's available distributable profits for each financial year are required to be applied to the redemption of Preference D shares at £5 per share.

20. Share Premium Account and Capital Redemption Reserve

	2006 Group £000	2006 Company £000
Share Premium Account		
At 1 January 2006	-	-
Issue of Preference A shares	341	341
Issue of Preference B shares	681	681
At 31 December 2006	1,022	1,022

	2006 Group £000	2006 Company £000
Capital Redemption Reserve		
At 1 January 2006	-	-
On redemption of Preference D shares in the year	134	134
At 31 December 2006	134	134

21. Profit and loss account

	2006 Group £000	2006 Company £000
At 1 January	12,975	998
Profit for the financial year	38,661	1,603
Other gains and losses	(48)	-
Equity dividends declared and paid	(1,775)	(1,775)
Transfer to Capital Redemption Reserve	(134)	(134)
At 31 December	49,679	692

	Group	
	2006 £000	2005 £000
Profit and loss account excluding pension scheme surplus/deficit	49,517	13,474
Pension scheme surplus/(deficit)	162	(499)
Profit and loss account including pension scheme surplus/deficit	49,679	12,975

22. Claims outstanding

	Gross £000	Reinsurers share £000	Net £000
2006			
Claims outstanding	534,701	(275,555)	259,146
2005			
Claims outstanding	105,173	(97,280)	7,893

No net provision for run-off expenses is included, after recognising credit of £126m (2005: £5m) in respect of estimated future investment return.

As explained in note 2 on estimation techniques and uncertainties – operating expenses, the provision for run-off expenses has been estimated over the anticipated period of run-off for the individual insurance company subsidiaries. This period of run-off may be up to 50 years in the case of some of the insurance liabilities.

23. Provisions for other risks and charges

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Onerous lease cost provision	-	-	197	-
Deferred taxation	4,818	-	5,860	-
	4,818	-	6,057	-

Onerous lease cost provision	Group 2006 £000	Group 2005 £000
Onerous lease contract		
At 1 January	197	316
Amounts used in the year	(56)	(82)
Amounts reversed	(141)	(37)
At 31 December	-	197

23. Provisions for other risks and charges (continued)

Deferred taxation	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Accelerated capital allowances	(48)	-	(58)	-
Trading losses	-	-	(688)	-
Other	1,784	-	6,548	-
Pension scheme surplus/(deficit)	70	-	(214)	-
Net provision for deferred tax	1,806	-	5,588	-
Shown as:				
Debtors (see note 17)	(3,082)	-	(58)	-
Provision for other risks and charges	4,818	-	5,860	-
Offset against pension scheme surplus/(deficit)	70	-	(214)	-
	1,806	-	5,588	-
Provision at 1 January	5,588	-	7,110	-
On acquisition of subsidiary	(2,605)	-	-	-
Exchange adjustments	(597)	-	740	-
Deferred tax credit in profit and loss account (see note 14)	(834)	-	(515)	-
Charge in the Statement of Total Recognised Gains and Losses	254	-	184	-
Arising on fair value adjustments	-	-	(1,931)	-
Provision at 31 December	1,806	-	5,588	-

24. Other creditors

The Group	2006 £000	2005 £000
Preference D Shares (see note 19)	116	250
Trade creditors	1,242	652
Other taxation and social security costs	401	157
Promissory note	2,564	-
Other creditors	22,631	6,022
Current corporation tax	-	30
	26,954	7,111

Other creditors include:

a) \$Nil (2005: \$6,250,000) due to the vendor of Transport. Under the terms of the acquisition agreement the balance has been repaid; and

b) £20,382,000 (2005: £Nil) due to Century International Reinsurance Company Ltd, a subsidiary undertaking of ACE Limited incorporated in Bermuda. This amount has been paid since the year end.

24. Other creditors (continued) **The Group (continued)**	**2006** **£000**	**2005** **£000**
The Group's borrowings comprise:-		
Shareholders loans	-	211
Transport vendor loan	-	3,634
Bank loans	10,876	-
Bank overdraft	1,083	555
Promissory note	2,564	-
Preference D Shares	116	250
	14,639	4,650
These borrowings are repayable as follows:		
In one year or less, or on demand	4,090	4,525
Between two and five years	9,529	125
Over five years	1,020	-
	14,639	4,650

The Company	**2006** **£000**	**2005** **£000**
Bank overdraft	1,001	496
Bank loans	10,876	-
Trade creditors	-	5
Amounts due to subsidiaries	4,608	1,276
Preference D Shares (see note 19)	116	250
Promissory note	2,564	-
Other creditors	-	222
Accruals and deferred income	285	95
	19,450	2,344
These borrowings are repayable as follows:		
In one year or less, or on demand	8,909	2,344
Between two and five years	9,521	-
Over five years	1,020	-
	19,450	2,344

25. Reconciliation of operating profit to net cash flow from operating activities	**2006** **Group** **£000**	**2005** **Group** **£000**
Operating profit before interest	38,500	486
Negative goodwill	(35,958)	(768)
Amortisation of goodwill	1,006	162
Realised and unrealised gains and losses	(213)	55
Depreciation of tangible fixed assets	220	474
Profit on sale of tangible fixed assets	-	(17)
Impairment of tangible fixed assets	892	-
Profit on sale of land and buildings	(45)	-
(Increase)/Decrease in debtors	(2,713)	810
Increase in deposits with ceding undertakings	(406)	-
Decrease in creditors	(4,807)	(377)
(Decrease)/Increase in net insurance technical provisions	(11,143)	529
Decrease in provision for liabilities and other charges	(529)	(119)
Revaluation of current asset investments	21	-
FRS 17 Adjustments	425	44
Net cash (outflow)/inflow from operating activities	(14,750)	1,279

26. Gross cash flows

	2006 Group Total £000	2005 Group Total £000
Returns on investments and servicing of finance		
Interest received in the non-technical account	85	105
Dividend on preference D shares	-	(60)
Interest paid	(212)	(72)
Dividend paid to minority	(24)	-
	(151)	(27)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(122)	(265)
Receipts from sales of tangible fixed assets	-	17
	(122)	(248)
Acquisitions		
Purchase of subsidiary undertakings	(16,783)	-
Purchase of minority interest in subsidiary undertakings	(16)	-
Cash acquired with subsidiary undertakings	286,049	-
	269,250	-
Financing		
Repayment of loan	(3,915)	(3,442)
Redemption of preference D shares	(670)	-
New loans	11,183	-
	6,598	(3,442)

27. Movement in Cash, Portfolio Investments and Financing

	At 1 January 2006 £000	Cash flow £000	Acquired with subs £000	Changes to market value & currencies £000	At 31 Dec 2006 £000
Cash at bank and in hand	6,504	92,973	-	(7,537)	91,940
Bank overdraft	(555)	(528)	-	-	(1,083)
Debt and other fixed income securities	12,941	167,818	60,209	(5,830)	235,138
Investment properties	2,332	(1,300)	-	(36)	996
Other investments	591	-	-	-	591
Loans	(3,845)	(7,268)	-	237	(10,876)
	17,968	251,695	60,209	(13,166)	316,706

Cash at bank and in hand and fixed income securities includes £23,102,000 (2005: £Nil) held by banks in respect of trust arrangements and as collateral for letters of credit issued by them in favour of insured parties of insurance subsidiaries.

28. Operating lease commitments

	2006 Group £000	2005 Group £000
The Group had annual commitments under operating leases:		
Land and buildings		
- Expiring within one year	-	-
- Expiring between two and five years inclusive	352	386
- Expiring after more than five years	371	371
	723	757
Other		
- Expiring between two and five years inclusive	32	29
	32	29

29. Contingent liabilities

The Group has a contingent liability of $582,000,000 (£297,000,000) associated with the purchase by third party insurance company subsidiaries of annuities from third party life insurance companies for the benefit of certain claimants. In the event that any of these life insurance companies were unable to meet their obligations to these annuitants, any remaining liability would fall upon the respective insurance company subsidiaries. The Directors believe that, having regard to the quality of the security of the life insurance companies, the possibility of a material liability arising in this way is remote.

As a condition of the acquisition of the Brandywine Companies, the Company entered into an assignment, assumption and indemnity agreement to counter-indemnify the ACE Group in respect of two guarantees given by ACE in favour of the ILU for business written by R&Q Reinsurance Company (UK) Ltd. This counter-indemnity is unlimited in amount

As a condition of the acquisition of Chevanstell Ltd, the Company entered into a deed of indemnity with Tryg Forsikring A/S to counter-indemnify it for four guarantees given in respect of the business written by Chevanstell Ltd. The aggregate limit of this counter-indemnity is £9 million.

The Directors believe the likelihood of either of these counter-indemnities ever being called upon is remote.

30. Defined Benefit Pension Scheme

CMSL participates in a defined benefit scheme.

The assets of the defined benefit scheme are held in separate trustee administered funds. The pension cost, including the FRS17 disclosures below, was assessed by an independent qualified Actuary. In his valuation the Actuary used the projected unit as the scheme is closed to new employees. A full valuation of the scheme was carried out as at 1 January 2006 by a qualified independent actuary.

On 2 December 2003 the scheme was closed to future accruals although the scheme continues to remain in full force and effect for members at that date.

30. Defined Benefit Pension Scheme (continued)

The main financial assumptions used to calculate the scheme liabilities under FRS17 are:

	2006	2005
Inflation rate	3.2%	2.8%
Pension increase	3.2%	2.8%
Deferred pension increases	3.2%	2.8%
Discount rate	5.1%	4.8%

The assets and liabilities of the scheme attributable to defined benefit members at 31 December were:

	2006		2005		2004	
	Expected return	£000	Expected return	£000	Expected return	£000
Equities	7.75%	14,262	8.0%	16,345	8.0%	15,528
Bonds (including Gilts)	5.00%	6,648	5.0%	4,011	5.0%	1,736
Property	7.00%	1,624	7.0%	1,040	7.0%	232
Cash	4.50%	1,296	4.0%	1,344	4.0%	1,831
Total market value of assets		23,830		22,740		19,327
Present value of scheme liabilities		(23,598)		(23,453)		(21,033)
Surplus/(deficit) in the scheme		232		(713)		(1,706)
Related deferred tax (liability)/asset		(70)		214		512
Net pension asset/(liability)		162		(499)		(1,194)

The amount charged to the operating profit in respect of this scheme comprises:

	2006 £000	2005 £000
Current service cost	44	44
Past service cost	461	-
Total operating charge	505	44

The credit made to other finance income in respect of this scheme comprises:

	2006 £000	2005 £000
Expected return on pension scheme assets	1,608	1,406
Interest on pension scheme liabilities	(1,114)	(1,093)
Net return	494	313

30. Defined Benefit Pension Scheme (continued)

The actuarial gain recognised in the statement of total recognised gains and losses (STRGL) comprises:

	2006 £000	2005 £000
Actual less expected return on pension scheme assets	225	2,340
Experience gains and losses arising on the scheme liabilities	243	(67)
Changes in assumptions underlying the present value of the scheme liabilities	378	(1,659)
Actuarial gain recognised in the STRGL	846	614

Movements in the pension scheme surplus/(deficit) during the year were:

	2006 £000	2005 £000
Deficit in the scheme at 1 January	(713)	(1,706)
Movement in year:		
Current service cost	(44)	(44)
Contributions paid by the employer	110	110
Past service costs	(461)	-
Other finance income	494	313
Actuarial gain	846	614
Surplus/(deficit) in the scheme at 31 December	232	(713)

In the year to 31 December 2006 the employer contributed £95,000 (2005: £95,000).
The cost of insuring death in service benefits was payable in addition.

History of experience gains and losses:

	2006	2005	2004	2003	2002
Difference between expected and actual return on scheme assets:					
Amount (£000)	225	2,340	311	1,386	(5,135)
% of scheme assets	1%	10%	2%	8%	(33%)
Experience gains and losses on scheme liabilities:					
Amount (£000)	243	(67)	(136)	450	400
% of scheme assets	1%	(<1%)	(1%)	2%	2%
Total amount recognised in STRGL:					
Amount (£000)	846	614	(980)	(34)	(5,580)
% of scheme assets	4%	3%	(5%)	(<1%)	(35%)

The measurement bases required by FRS17 are likely to give rise to significant fluctuations in the reported amounts of the scheme's assets and liabilities from year to year, and do not necessarily give rise to the need for changes in the required contribution rate. The required contribution rate is recommended by the independent actuary based on the expected long term rate of return on the scheme's assets.

31. Related party transactions

(i) The Company has taken advantage of provisions in Financial Reporting Standard No. 8 (FRS8) which allows the Company not to disclose transactions with those Group companies in which it has an interest of 90% or more.

(ii) Until 3 March 2006 and 11 April 2006 respectively, Dukes Place Holdings LP ("Dukes Place") had an indirect minority interest in CMSL and a direct minority interest in Cavell USA. During the year Renaissance Capital Partners Limited ("RCP") provided management and other services to Dukes Place and its subsidiaries, with whom it had an exclusive agreement; the agreement ceased as at 31 December 2006. Fees amounting to £560,000 were earned in the year (2005: £580,000). Dukes Place owed RCP £Nil at 31 December 2006 (2005: £Nil).

(iii) Mr K.E. Randall, a director and shareholder, has provided a loan to the Company at an interest rate of 6.5% p.a. At 31 December 2006 the Company owed £Nil to Mr Randall (2005: £155,470).

(iv) Mr A.K. Quilter, a director and shareholder, has provided a loan to the Company at an interest rate of 6.5% p.a. At 31 December 2006 the Company owed £Nil to Mr Quilter (2005: £55,555).

(v) A freehold property held for the Group's occupation by an insurance company subsidiary was valued at £500,000. The historic cost was £210,000. This property was sold during 2006 to Mr K. E. Randall, a director, and his wife at the market value as at 31 December 2005.

(vi) Cavell Holdings Limited ("CHL") owned a 25% interest in CMSL until 3 March 2006. Cavell Insurance Company Limited ("CICL") and Unione Italiana (UK) Reinsurance Company Limited are subsidiaries of CHL. During the year CMSL provided management services to these companies amounting to £1,625,000 (2005: £2,381,000).

CMSL occupies property owned by CICL and has been granted a rent free period by CICL for the period from 1 January 2003 until 31 December 2007. At 31 December 2006 CMSL was owed £Nil by CICL (2005: £328,559 owed to CICL).

32. Acquisitions in the year

R&Q Reinsurance Company and its subsidiary

On 3 July 2006 the Group purchased the entire issued share capital of R&Q Reinsurance Company (formerly Ace American Reinsurance Company) a company incorporated in the USA and its wholly owned subsidiary R&Q Reinsurance Company (Belgium) (formerly Brandywine Reinsurance Company S.A.N.V.) a company incorporated in Belgium.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net liabilities acquired was £10,358,000. Positive goodwill of £13,423,000 arose.

32. Acquisitions in the year (continued)

R&Q Reinsurance Company and its subsidiary (continued)

The following table explains the fair value adjustments made to the book values of the major categories of assets and liabilities included in the consolidated Financial Statements at the date of acquisition.

	Book value £000	Adjustments £000	Fair value £000
Other financial investments	14,000	440	14,440
Other debtors	11,525	(100)	11,425
Cash	189,999	-	189,999
General insurance technical provisions	(274,252)	(58,823)	(333,075)
General insurance technical provisions reinsurers share	104,927	30,462	135,389
Other creditors	(28,536)	-	(28,536)
Run-off costs	-	(58,022)	(58,022)
Future investment income	-	58,022	58,022
Net assets acquired	17,663	(28,021)	(10,358)
Satisfied by			
Promissory note			(2,564)
Preference A share issued			(341)
Acquisition costs paid			(160)
Positive goodwill (see note 15)			(13,423)

The main fair value adjustments arise from the reversal of discounting adjustments.

Summarised profit and loss account for the period 1 January 2006 to date of acquisition:

	£000
Profit before taxation	2,905
Taxation	-
Profit after taxation	2,905

32. Acquisitions in the year (continued)

R&Q Reinsurance Company and its subsidiary (continued)

Under the terms of the contract for the acquisition, a number of pre-closing transactions were effected with companies within the vendor's group. These included material transfers of business, commutations of stop loss reinsurance policies, the settlement of balances with members of the vendor's group and the settlement of outstanding reinsurance recoveries in cash. The effect of these transactions was of such significance as to make the profit after taxation up to the date of acquisition not representative of the performance of R&Q Reinsurance Company after acquisition.

Audited Financial Statements under UK GAAP were not prepared for R&Q Reinsurance Company in respect of 2005. An audited Annual Statement for 2005 was prepared for regulatory purposes under US Statutory Accounting Principles, which are not wholly comparable with UK GAAP. The Annual Statement for 2005 disclosed a profit after tax for the year ended 31 December 2005 of £12,189,000.

R&Q Reinsurance Company (UK) Limited

On 3 July 2006 the Company purchased the entire issued share capital of R&Q Reinsurance Company (UK) Limited (formerly Brandywine Reinsurance Company (UK) Limited) a company incorporated in the United Kingdom.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £15,150,000. Negative goodwill of £12,974,000 arose.

The following table explains the fair value adjustments made to the book values of the major categories of assets and liabilities included in the consolidated Financial Statements at the date of acquisition.

	Book value £000	Adjustments £000	Fair value £000
Deposits with ceding undertakings	627	-	627
Debtors arising from insurance operations	1,641	-	1,641
Other debtors	1	-	1
Cash	65,752	-	65,752
General insurance technical provisions	(67,597)	(6,103)	(73,700)
General insurance technical provisions – reinsurers share	32,990	9,076	42,066
Deferred taxation	-	-	-
Creditors arising from insurance operations	(12,327)	-	(12,327)
Other creditors	(8,910)	-	(8,910)
Run-off costs	-	(21,848)	(21,848)
Future investment income	-	21,848	21,848
Net assets acquired	12,177	2,973	15,150

32. Acquisitions in the year (continued)

R&Q Reinsurance Company (UK) Limited (continued)

	Book value £000	Adjustments £000	Fair value £000
Satisfied by			
Capital subscribed			(1,275)
Preference B share issued			(681)
Other acquisition costs paid			(220)
Negative goodwill			12,974

The main fair value adjustments arise from the reversal of discounting adjustments.

Summarised profit and loss account for the period 1 January 2006 to date of acquisition:

	£000
Profit before taxation	11,017
Taxation	-
Profit after taxation	11,017

Under the terms of the contract for the acquisition, a number of pre-closing transactions were effected with companies within the vendor's group. These included material commutations of stop loss reinsurance policies, the settlement of balances with the vendor's group and the settlement of outstanding reinsurance recoveries in cash. The effect of these transactions was of such significance as to make the profit after taxation up to the date of acquisition not representative of the performance of R&Q Reinsurance Company (UK) Limited after acquisition.

The profit after tax for the year ended 31 December 2005 was £79,000.

Chevanstell Limited and its subsidiary

On 10 November 2006 the Group purchased the entire issued share capital of Chevanstell Limited and its wholly owned subsidiary Chevanstell Management Limited. Both companies are incorporated in the United Kingdom.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £33,348,000. After recognising future investment income available from fellow subsidiaries negative goodwill of £20,283,000 arose.

32. Acquisitions in the year (continued)

Chevenstell Limited and its subsidiary (continued)

The following table explains the fair value adjustments made to the book values of the major categories of assets and liabilities included in the consolidated Financial Statements at the date of acquisition.

	Book value £000	Adjustments £000	Fair value £000
Other financial investments	38,611	-	38,611
Debtors arising from insurance operations	10,748	-	10,748
Other debtors	674	-	674
Cash	29,130	-	29,130
General insurance technical provisions	(86,522)	6,994	(79,528)
General insurance technical provisions – reinsurers share	42,956	(4,508)	38,448
Deferred taxation	-	-	-
Creditors arising from insurance operations	(2,933)	-	(2,933)
Other creditors	(1,802)	-	(1,802)
Run-off costs	(8,862)	(17,672)	(26,534)
Future investment income	-	17,672	17,672
Net assets acquired	22,000	2,486	24,486
Satisfied by Future investment income of subsidiaries			8,862
			33,348
Cash consideration			(13,000)
Other acquisition costs paid			(65)
Negative goodwill			20,283

The main fair value adjustments arise from the reversal of discounting and the release of the closure costs provision.

Summarised profit and loss account for the period 1 January 2006 to date of acquisition:

	£000
Profit before taxation	1,136
Taxation	-
Profit after taxation	1,136

Under the terms of the contract for the acquisition, a number of pre-closing transactions were effected with companies within the vendor's group. These included material commutations of stop loss reinsurance policies, and the settlement of balances with the vendor's group. The effect of these transactions was of such significance as to make the profit after taxation up to the date of acquisition not representative of the performance of Chevanstell Limited and its subsidiary after acquisition.

32. Acquisitions in the year (continued)

Chevenstell Limited and its subsidiary (continued)

The profit after tax for the year ended 31 December 2005 was £7,900,000.

Arran Insurance Company Limited

On 21 December 2006 the Group purchased the entire issued share capital of Arran Insurance Company (U.K.) Limited (formerly Ancon Insurance Company (U.K.) Limited), a company incorporated in the United Kingdom.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of assets acquired was £4,362,000. Negative goodwill of £2,140,000 arose.

The following table explains the fair value adjustments made to the book values of the major categories of assets and liabilities included in the consolidated Financial Statements at the date of acquisition.

	Book value £000	Adjustments £000	Fair value £000
Other financial investments	7,158	-	7,158
Debtors arising from insurance operations	143	-	143
Other debtors	44	-	44
Cash	1,168	-	1,168
General insurance technical provisions	(4,610)	333	(4,277)
General insurance technical provisions – reinsurers share	1,379	-	1,379
Creditors arising from insurance operations	(1,226)	-	(1,226)
Other creditors	(27)	-	(27)
Run-off costs	-	(4,100)	(4,100)
Future investment income	-	4,100	4,100
Net assets acquired	4,029	333	4,362
Satisfied by			
Cash consideration			(2,093)
Other acquisition costs paid			(129)
Negative goodwill			2,140

32. Acquisitions in the year (continued)

Arran Insurance Company Limited (continued)

Summarised profit and loss account for the period 1 January 2006 to date of acquisition:

	£000
Profit before taxation	698
Taxation	-
Profit after taxation	698

The loss after tax for the year ended 31 December 2005 was £975,000.

Other

During the year the Group acquired the minority interests in Cavell Management Services Limited, Renaissance Capital Partners Limited and Cavell USA Inc, for an aggregate cash consideration of £16,775. After fair value adjustments these gave rise to negative goodwill of £561,000.

Summary of goodwill on acquisition

Total positive goodwill arising amounted to £13,423,000 which has been added to intangible assets (see note 15).

Total negative goodwill arising amounted to £35,958,000 in the year, which can be analysed as follows: –

	£000
Acquisition of R&Q Reinsurance (UK) Limited	12,974
Acquisition of Chevanstell Limited	20,283
Acquisition of Arran Insurance Limited	2,140
Acquisition of minority interest in CMSL	490
Acquisition of minority interest in RCP	31
Acquisition of minority interest in CUSA	40
	35,958

These amounts are credited to the Profit & loss Account.

33. Intercompany guarantee and debenture

The Company has entered into a guarantee agreement and debenture arrangement with its Bankers, along with its subsidiaries, R&Q Consultants and CMSL, in respect of the Group overdraft and term loan facilities. The total liability to the bank of these companies at 31 December 2006 is £11,959,487 (2005: £Nil).

34. Ultimate controlling party

The ultimate controlling party of the Company is Mr K. E. Randall.

Principal Office Locations

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