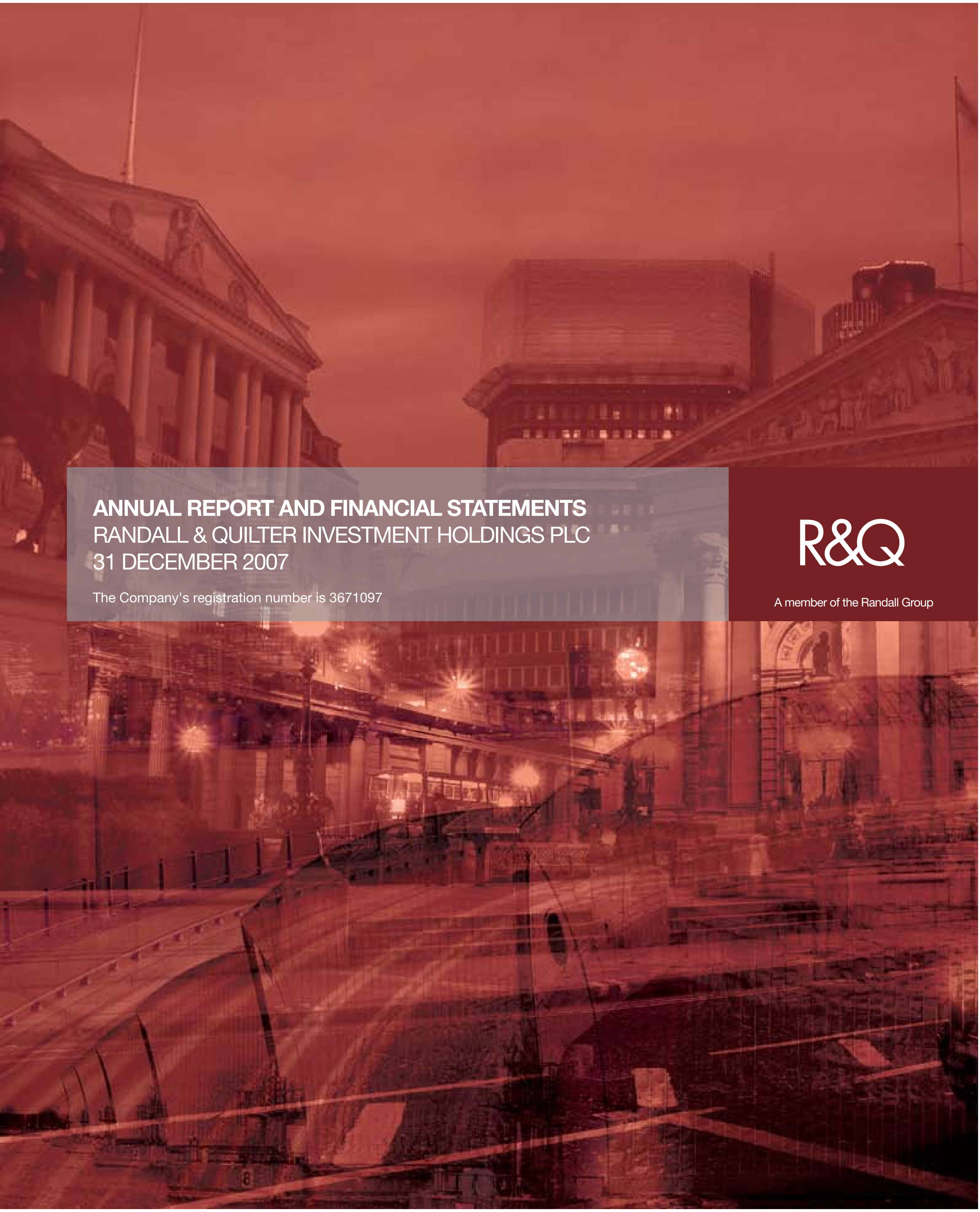


ANNUAL REPORT AND FINANCIAL STATEMENTS
RANDALL & QUILTER INVESTMENT HOLDINGS PLC
31 DECEMBER 2007

The Company's registration number is 3671097

R&Q

A member of the Randall Group

Financial Statements
For the year ended 31 December 2007

Index

Directors and Advisers

Directors from left to right and back to front

M G Smith, K P McNamara, J M P Welman
K E Randall, A K Quilter

Secretary

P J McCann

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

Littlejohn
1 Westferry Circus
Canary Wharf
London
E14 4HD

Registered Number

3671097

Highlights and Summary of Results

For the year ended 31 December 2007

highlights

Group operating result up 68% to £8.7m (2006 : £5.2m)

Group net assets up 46% to £74.7m (2006 : £51.2m)

Insurance Services Division EBITDA up 195% to £5.4m (2006 : £1.8m)

Approval from FSA for an £11m release of capital from Chevanstell Limited, further proof of the Group's success at cash extraction from its owned Insurance Companies

Repayment of external debt from proceeds of AIM IPO

New £20m revolving credit facility for future acquisitions negotiated

Investment return of 5.62% (2006 : 4.85%)

Undiscounted net asset value per share at 31 December 2007: 133.6p (2006: 91.6p)

Financial Results 2007

	2007	2006
Group Results	**£'000**	**£'000**
Operating result	8,720	5,194
Operating result (including negative goodwill and impairment)	8,720	*39,308
Profit on ordinary activities before income taxes	7,025	*38,560
Profit after tax	8,053	*38,937
Earnings Per Share (Basic)	29.5p	*150.3p
Total equity	74,696	51,217
Insurance Services Division		
Turnover	22,239	18,154
EBITDA	5,390	1,828

* Includes negative goodwill amounting to £35.9m which arose on the acquisition of insurance companies in 2006.

Chairman's Statement and Business Review

For the year ended 31 December 2007

I am pleased to make my first report as Chairman and Chief Executive of the Group following our admission to AIM late last year. The trading result for the year is in line with expectation and I am delighted to report that the Group achieved profits of £7.0m before tax. As stated in the Report of the Directors, the Company paid a dividend of £1.4m in 2007. In the absence of unforeseen circumstances and subject to there being sufficient distributable reserves, the Directors intend to pay a dividend in respect of 2008 and will follow a progressive policy thereafter. These dividends will be underpinned by the cash flows from the Insurance Services Division.

Following our admission to AIM in December 2007 we have already made excellent progress on a number of the objectives which were set out in the Admission Document.

- We have gained approval from the Bermudian Monetary Authority ("BMA") for the registration of a Class 3 Bermudian domiciled reinsurance company to facilitate more efficient use of capital across the Group.
- We have proved further our ability to achieve cash extraction from the Insurance Company Division, having gained approval from the FSA for a release of capital to Randall & Quilter Investment Holdings plc of £11m from Chevanstell a wholly owned insurance company subsidiary. Within 18 months of its acquisition, we have therefore re-couped most of the £13m we paid for Chevanstell and have grown net assets from £22m at acquisition to over £30m at 31 December 2007.
- We repaid the Group's loan facility with the Royal Bank of Scotland plc in late December using part of the proceeds of the AIM placing and negotiated a new revolving credit facility providing up to £20m for future acquisitions.
- We have gained approval from the FSA for the formation of R&Q Broking Services Limited ("RQBS") which will generate revenues for the Group in respect of "replacement services" for run-off accounts where the original London insurance brokers are under-performing. RQBS will have a positive impact on the cash flow of our owned insurance companies through improved collections from third party reinsurers.

We have an active pipeline of business opportunities. Premium rates continue to fall – in my view, an inevitable consequence of there being surplus capacity within the insurance and reinsurance industry - and claims frequency inevitably rises when the world economy slows down. Thus I remain confident that the market will continue to present opportunities for the run-off sector.

Business Review

Following the major insurance company acquisition activity of the Group in the second half of 2006, the past year has been a year of consolidation and integration of our two main business areas culminating in the successful AIM listing in December 2007. However, we are actively engaged in discussions which may lead to future acquisitions and, as commented on later in this report, I am pleased to report on positive developments in the Liquidity Management Division and new initiatives in reinsurance broker file replacement services.

The Group comprises three divisions; the Insurance Company Division ("ICD"), Insurance Services Division ("ISD") and the Liquidity Management Division ("LMD") and I will deal with each of these in turn.

Insurance Company Division

This division acquires solvent insurance companies in run-off, typically at a discount to net asset value, and seeks to realise surplus assets within such companies once their liabilities have been reduced and regulatory approval to release surpluses has been obtained. At 31 December 2007 the portfolio of insurance companies under ownership was as follows:-

Chairman's Statement and Business Review (continued)

For the year ended 31 December 2007

Insurance Company Division (continued)

	Vendor	Country of Incorporation	Acquisition Date
Ludgate*	MMI/St Paul	UK	4 August 1992
La Metropole SA	Travelers Group	Belgium	29 November 2000
Transport Insurance Company	American Financial Group	USA	30 November 2004
R & Q Reinsurance Company (UK) Limited	Ace Group	UK	3 July 2006
R & Q Reinsurance Company (Belgium)	Ace Group	Belgium	3 July 2006
R & Q Reinsurance Company	Ace Group	USA	3 July 2006
Chevanstell Limited	Trygg Forsikring	UK	10 November 2006
Arran Insurance Company Limited	ExxonMobil Group	UK	21 December 2006

* Ludgate was de-authorised as an insurance company by the FSA on 10 July 2007

At 31 December 2007 the total net assets of the owned insurance companies was £62.3m. This includes adjustments for Group accounting policies.

Investment Policy and Returns

The Group outsources investment management responsibilities to two fund managers:-

Mellon Fund Managers Limited	-	R&Q Re
Epic Investment Partners Limited	-	R&Q Re (UK)
	-	R&Q Re (Belgium)
	-	Arran Insurance Company
	-	Chevanstell
	-	Transport Insurance Company

Each of the Group owned insurance companies invests its funds within guidelines established by the Board.

The assets are invested in fixed interest government and agency securities, high grade corporate bonds, cash and a small amount of equities. In addition, insurance liabilities are broadly matched in original currencies.

Chairman's Statement and Business Review (continued)

For the year ended 31 December 2007

Each fund manager is provided with investment guidelines which allow them to trade from day to day having knowledge of:-

- our investment objectives, which are aimed at optimising return whilst maintaining the principal value of the investments held.
- our quality criteria, which is that funds are invested in top quality government, agency and corporate stocks as well as cash and a small amount of equities.
- our concentration limits to prevent over exposure to any particular sector or stock.
- our average duration set relatively short to provide funds to enable us to manage down liabilities through claims settlements and commutations.

The Board of each insurance company regularly monitors the performance of the investment managers and their compliance with the investment guidelines.

2007 proved to be a volatile year in the financial markets with concern arising over sub prime exposures increasingly affecting financial markets as the year came to an end. The investment portfolio mix enabled the Group to benefit from the reducing interest rate environment and flight to quality. The annualised return for our US investments averaged 5.6%. In the UK returns have also been satisfactory with stocks of short duration and cash deposits generating an average return of 5.9%.

At 31 December 2007 the Group's cash and investments at market value comprised:-

	£m
Cash	84.8
Corporate Bonds	67.8
Asset backed/Mortgage obligations	4.0
Government Bonds	113.7
Equities	2.2
	272.5

Instability in the financial markets continued into 2008. Our investment returns in the first quarter of 2008 were positive and our investment portfolios are well positioned to generate positive returns over the remainder of the current year.

Reserving

One of the key differentiations between the Group and our major competitors is the policy of holding insurance company reserves undiscounted.

For the purposes of the listing, all of our insurance companies retained independent external actuaries to review ultimate loss projections. Whilst for some classes our view is that the external actuaries have arrived at estimates which are rather conservative, their reserve projections were adopted without amendment for the accounts included within the AIM Admission Document and have been 'rolled forward' in the 2007 year end accounts with only minor adjustments to recognise subsequent developments. Our internal actuarial team continues to work with the external actuaries to achieve clarification where reserves may be reduced. Any reduction will benefit future years' contributions from the group-owned insurance companies.

Bermudian Reinsurer

As indicated in our AIM Admission document, the Group has previously used third party reinsurers such as National Indemnity Company ("NICO") (part of the Berkshire Hathaway Group) to structure some acquisitions. The Directors believe that the benefit of reinsuring in whole, or in part, with a Group-owned entity is that the Group could reduce the economic value ceded to such third party reinsurers and, importantly, achieve greater flexibility in the operation and terms of such reinsurance. Accordingly, application to the BMA was made in the latter half of 2007 for the registration of a Bermudian Class 3 reinsurer. I am delighted to report that the BMA approved the registration at the end of December. At present, the new subsidiary R&Q Re (Bermuda) will solely provide inter-group reinsurance to assist in the structuring of future acquisitions and enhancing returns derived from new and existing subsidiaries. Capitalisation of R&Q Re (Bermuda) from internal resources will follow as transactions take place.

The key issues in insurance subsidiaries during the year were as follows:-

R&Q Reinsurance Company (UK)

During the year, much preliminary work has been carried out with both insureds and reinsurers to identify where commutations may be achievable. In addition, R&Q Re (UK) has adopted the in-house developed ISIS computer system. We expect to derive significant operational benefits from the new system, especially when the planned conversion of all other insurance subsidiaries onto this system has been completed over the next 18 months.

The major issue for R&Q Re (UK) is the dispute with Equitas involving more than 4,000 claims. These claims have been the subject of many arbitration notices and more recently attention has been focused on a more limited number of claims in respect of which litigation has commenced. It is anticipated that this litigation will proceed in the early part of 2009. The Board of R&Q Re (UK) believe that the vast majority by value of the claims are not payable following prior Court of Appeal decisions and market practice.

Chairman's Statement and Business Review (continued)

For the year ended 31 December 2007

Insurance Company Division (continued)

Chevanstell Limited

2007 was a successful year of commutation and managing down of liabilities which has enabled Chevanstell to obtain approval from the FSA for the release of £11m surplus capital to RQIH. The release has been achieved by a share buy-back process and represents a recovery of 85% of the total acquisition cost within 18 months. This is a very clear demonstration of the ability of the Group to deliver on its stated strategy. I am pleased to report that the dispute with Tryg Forsikring A/S, the vendors of Chevanstell, on a claim for breach of warranty has also been amicably settled.

R&Q Reinsurance Company (US)

This US subsidiary has significant long tail liabilities. During 2007 much work has been done to settle a substantial volume of claims. By its very nature this account is litigious but during the year a number of long standing disputes have been settled, reducing some of the volatility in the account. The main focus going forward is rebuilding relationships with major policyholders who are largely major US insurance companies.

The Company has significant reinsurance protection with high quality security. Some 70% of the reinsurance asset resides with ten reinsurers.

Transport Insurance Company

The major challenge in this US subsidiary is the collection of long overdue reinsurance recoveries in respect of the Aerojet claim amounting to $12.9m from Seaton Insurance Company and TIG. These companies have made challenges which we regard as unwarranted but based on strong legal advice, we are pursuing our claims to a California court action scheduled later this month.

This company benefits from a reinsurance policy with NICO which provides protection of $24m above the current actuarial projection of ultimate claims liabilities of $89m.

Remaining Insurance Company Subsidiaries

The other insurance companies in the Group are running off broadly in accordance with their run-off plans with the major emphasis being to extinguish all remaining liabilities.

Insurance Services Division

I am delighted to report that this division reported a record operating profit of £5.4m, reflecting the inclusion of a first full year of income from recently acquired group insurance company subsidiaries. Furthermore, it was pleasing for the Group to be named Run-off Management Service Provider of the Year 2007 by the Association of Run-off Companies.

ISD provides services for both Group owned insurance companies and third party insurance entities. During 2007 the income from owned insurance companies represented approximately 50% of the turnover of the division. The major part of the ISD income is secured by long-term contracts, is non-cyclical and underpins the Group's cash flows, enabling it to pay regular dividends.

As stated earlier in this report, much of the activity in the ISD during 2007 has been a consolidation of existing contracts and integration of staff, particularly from the new acquisitions by the Group in the latter half of 2006. Nevertheless, it is the strategic aim of the ISD to secure material third party contracts to maintain the necessary critical mass to reduce unit costs and improve operating margins.

In addition to securing small further contracts in run-off services, there have been additional assignments for third parties in both coverholder reviews and audit and inspection activity.

Broker Servicing Initiative

RQBS was incorporated during 2007 to provide reinsurance broker file replacement services. This company is regulated by the Financial Services Authority and gained approval on 6 December 2007.

A key issue in run-off is ensuring effective broker performance on reinsurance collections when the broker knows they will not gain any new/repeat business from the run-off entity. This is a market problem where a number of initiatives including additional payments to collecting brokers have been introduced but with limited consistent success. RQBS has been set up to counter this issue for the benefit of the Group's owned insurance companies and the intention is to expand this service to third party entities in both the run-off and live markets where broker service performance has deteriorated.

RQBS also provides a service to address the growing problem faced by many service providers (e.g. lawyers and loss adjusters) to London Market insurance entities regarding collection of their fees. Whilst traditionally brokers provided collection services, there is now a marked reluctance and even rejection by brokers of this service. To address this issue, RQBS provides a recourse finance facility whereby advisers receive payment for invoices rendered within 30 days.

I look forward to seeing further development in both these new strands of business through 2008 and beyond.

Chairman's Statement and Business Review (continued)

For the year ended 31 December 2007

Liquidity Management

2007 was effectively the first full year of operation of the main subsidiary in this division, Reinsurance Finance Management Limited ("RFML"). Although in earlier years there had been limited activity in liquidity management as specific opportunities arose, 2007 marks the first year where dedicated resource and business focus has been applied, creating an identifiable third strand of Group business activity.

RFML provides liquidity solutions to the London and International insurance and reinsurance markets by facilitating the trading of reinsurance receivables for cash. In addition, it provides collection and commutation services. Opportunities in these markets are arising with increased frequency for a number of reasons, including:-

- Administrators of solvent and insolvent schemes of arrangement moving estates towards finality; and
- Finance directors of insurance companies working to reduce the impairment to solvency caused by slow moving reinsurance recoveries.

RFML's appeal to vendors of reinsurance receivables has been increased following the launch of a recourse finance initiative which complements its offering of non-recourse acquisition and contingency collection services.

The quantum and value of portfolios of reinsurance receivables being sold by administrators, solvent companies and creditors has also increased in recent years and RFML is positioned to increase its investment and market share in this area of the business over the next few years.

Debt portfolios acquired to date on a non-recourse basis have achieved a combined annualised return in excess of 30%. The recourse initiative has only recently been launched and there are no historical returns available.

Litigation

As stated in our AIM Admission Document, Seaton Insurance Company ("Seaton") and Stonewall Insurance Company ("Stonewall") which are US domiciled insurance companies in run-off, filed a complaint in the New York Federal Court against Cavell USA Inc ("Cavell USA"), a wholly owned subsidiary of the Group and me, personally, alleging fraudulent misrepresentation and concealment (as those expressions are understood in the US) in relation to Cavell USA's prior management of those companies. Cavell USA and I strongly refute all of the allegations and have applied to the New York Court to have the proceedings dismissed on the grounds that their complaint fails to state any claim and, in any event, the proper court with jurisdiction over such allegations is the English Court. We have commenced proceedings in England claiming damages and related declarations on the grounds that Seaton and Stonewall have breached a release agreement signed in February 2006 and that the terms of the release required any future dispute between the parties to be heard in the English Court. The Directors remain firmly of the belief that the complaint by Seaton and Stonewall is vexatious and without merit and, having taken appropriate legal advice, are satisfied that Cavell USA and myself are unlikely to have any liability for the amounts claimed.

Run-off Market Perspective

The successful AIM Listing at the end of 2007 was an important step in the development of the Group. The raising of new capital, the renegotiation of our revolving credit facility with Royal Bank of Scotland and our improved access to the capital markets position the Group favourably to address larger run-off opportunities and facilitate the development of the other Group activities.

Some commentators have suggested that the run-off market, particularly in the UK, is in decline. I reject that analysis. Indeed I believe run-off opportunities are likely to increase within the foreseeable future as insurers face up to the twin challenges of falling premium rates and rising claims frequency. Investors in the non life insurance business will, increasingly, need to shed their discontinued portfolios in order to focus capital into their core business. I am encouraged by the recognition of the Group's new financial status which has already generated more opportunities to tender. Thus we have a more active pipeline of potential business than previously. However, as ever, our key objective will be to achieve a satisfactory return on every investment.

The ISD provides resources to manage and administer the Group's insurance company subsidiaries. We aim to grow our revenues from third party management contracts by providing a range of services, including the initiatives in RQBS outlined above. Whilst we have a pipeline of new third party run-off management proposals there is a proliferation of service providers in London and the Group is in discussion with a number of parties in the sector with a view to "bolt-on" acquisitions.

The collection of reinsurance receivables remains a key challenge within the insurance industry. This creates an environment of opportunity for RFML to develop its business in a significant manner. Increasingly, companies want a finality solution to their outstanding debt problems rather than a pure servicing offering. RFML's access to Group finance facilities will enable a range of finality services which should see an increasing contribution to Group profitability going forward.

Chairman's Statement and Business Review (continued)
For the year ended 31 December 2007

"The past year has been demanding for everyone working within the Group, particularly with the additional work associated with the AIM Listing. I would like to express my gratitude for every individual contribution and look forward to working with the team to achieve the future development of the Group across all our activities."

Staffing

I am delighted to welcome Paul McNamara, Michael Smith and Jo Welman to the Board of Randall & Quilter Investment Holdings plc as Non-Executive Directors. I look forward to working with them and gaining benefit from their wide-ranging and complementary experience to take the Group forward to the next level of development. Paul McNamara has been appointed as Chairman of the Audit Committee and Jo Welman as Chairman of the Remuneration Committee. In both committees, the other participants are the remaining Non-Executive Directors. Since these committees have only just been formed, there is no report for the year ended 31 December 2007 but reports will be made in subsequent years.

During 2007 and the beginning of 2008 I am pleased to report the recruitment of John O'Neill as Chief Operating Officer of our UK Insurance Services Division and Stefan Watson as the Managing Director of RFML. As a Group, we will always continue to seek to employ high quality individuals who will be key to developing our business both in existing and new areas.

Kathryn Skoyles, our General Counsel, has for years threatened to give up "the law" and turn her hobby, writing crime fiction, into a full time occupation. She chose to follow through with her threat at the beginning of 2008 and, while we will miss her wise counsel, we wish her every success.

On a sadder note, I have to report the passing away of two long-term and respected members of our staff, Riaz Ghassemi and Derek Sargeant. Both are sorely missed by their colleagues.

The past year has been demanding for everyone working within the Group, particularly with the additional work associated with the AIM Listing. I would like to express my gratitude for every individual contribution and look forward to working with the team to achieve the future development of the Group across all our activities.

K E Randall
Chairman and Chief Executive Officer

14 May 2008

Report of the Directors
For the year ended 31 December 2007

The Directors present their report together with the audited Financial Statements of the Company and its subsidiaries for the year ended 31 December 2007.

Change of Name and Re-registration to a Public Limited Company

On 3 December 2007, the Company changed its name from Randall & Quilter Investment Holdings Limited to Randall & Quilter Investment Holdings plc and was re-registered as a public limited company.

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.

Results and Dividends

The results for the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 16.

The Directors declared and paid dividends in the year on the ordinary shares of £nil (2006: £175,500). The Company paid a dividend of £1,400,000 (2006: £1,600,000) in the year on the Preference C Shares. The Directors do not recommend that a further dividend be declared for the year ended 31 December 2007.

In the absence of unforeseen circumstances and subject to there being sufficient distributable reserves, the Directors intend to pay a dividend in respect of 2008 and will follow a progressive policy thereafter.

Directors

The present Directors are shown on page 1. M G Smith, K P McNamara and J M P Welman were appointed on 7 December 2007. M E Randall resigned as a Director on 21 November 2007.

Directors Interest in Shares

As at 31 December 2007, the following Directors held shares as below. The total shares in issue amounted to 55,902,500.

K E Randall	21,804,000
A K Quilter	4,865,500
K P McNamara	28,000

Business Review

An overview of the Company's business and review of the activities of the Group in the year are contained in the Chairman's Statement and Business Review on pages 3 to 8.

Risk Management – Group

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.

Detailed analysis of risk management is included at Note 4 to the Financial Statements.

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

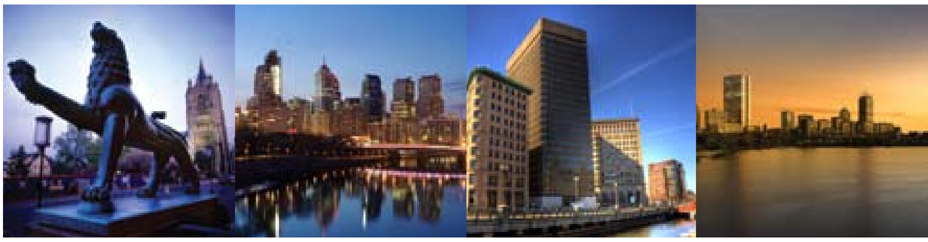
The operations of the Group are reliant on key staff. The Directors believe that its Human Resources policies are appropriate to recruit and retain such staff.

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.

Report of the Directors (continued)
For the year ended 31 December 2007

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.



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 2) to the Financial Statements the Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of the insurance companies. 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 it.

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 insurance risks which affect the insurance companies are:-

- Reinsurance risk – the risk that the reinsurers of the insurance companies will dispute the coverage of losses
- Claims risk – a series of claims in respect of a latent liability that the insurance industry is not currently aware of
- Legal risk – changes in statute or legal precedent
- Reserving risk – the risk that the reserves established by the companies prove to be inadequate.

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 the Directors of each insurance company and the investment committee.

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 five years. As at the Balance Sheet date almost all of the major contracts had in excess of three years to run.

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 usually 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 changes in the Company's share capital structure, rights and obligations attaching to, and any restrictions on the transfer or voting rights of the Company's shares are given in Note 24 to the financial statements.

Charitable Donations

During the year the Group contributed £3,621 (2006: £1,655) 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.

Report of the Directors (continued)
For the year ended 31 December 2007

Creditor Payment Policy

It is the Group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

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

Since the previous Annual General Meeting our auditors, CLB Littlejohn Frazer have changed their name to Littlejohn. A resolution to reappoint Littlejohn as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Signed by

P J McCann
Company Secretary

14 May 2008

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards.

The Group Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

The Parent Company Financial Statements are required by law to give a true and fair view of the state of the affairs of the Parent Company.

In preparing these Financial Statements the Directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Group and Parent Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Report of the Directors that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

Independent Auditors' Report
to the shareholders of Randall & Quilter Investment Holdings plc

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Randall & Quilter Investment Holdings plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. 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

The Directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and IFRSs as adopted by the European Union, and for preparing the Parent Company Financial Statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether the Financial Statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the Financial Statements. In addition we report to you if, in our opinion, 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 other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. The other information comprises only the Highlights and Summary of Results, the Chairman's Statement and Business Review and the Report of the Directors. 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 Audit 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 plc

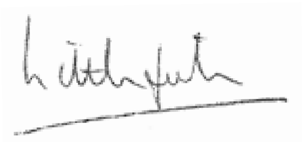
Emphasis of matter - significant uncertainty in relation to technical provisions

In forming our opinion we have considered the adequacy of the disclosures made in Notes 2 and 3 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 Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2007;
- The Parent Company Financial Statements have been prepared properly in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the Financial Statements.



Littlejohn

Chartered Accountants
and Registered Auditors

1 Westferry Circus
Canary Wharf
London E14 4HD

14 May 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Gross premiums written		1,460		290	
Reinsurers' share of gross premiums		35		(46)	
Earned premium net of reinsurance			1,495		244
Net investment income	6	15,941		7,153	
Other income	7	9,629		15,570	
			25,570		22,723
Total income			27,065		22,967
Gross claims paid		(61,722)		(25,583)	
Reinsurers' share of gross claims paid		33,860		13,931	
Claims paid, net of reinsurance		(27,862)		(11,652)	
Movement in gross technical provision		71,282		29,063	
Movement in reinsurers' share of technical provisions		(43,204)		(13,435)	
Net change in provision for claims		28,078		15,628	
Net insurance claims incurred			216		3,976
Operating expenses	8		(18,561)		(21,749)
Result of operating activities before negative goodwill and impairment of intangible assets			8,720		5,194
Negative goodwill			-		35,930
Impairment of intangible assets			-		(1,816)
Result of operating activities			8,720		39,308
Finance costs	9		(1,695)		(748)
Profit on ordinary activities before income taxes	10		7,025		38,560
Income tax credit	11		1,028		377
Profit for the year			8,053		38,937
Attributable to equity holders of the parent					
Attributable to Ordinary shareholders			7,996		37,584
Attributable to Preference C shareholders			-		1,306
			7,996		38,890
Minority interests			57		47
			8,053		38,937
Earnings per ordinary share for the profit attributable to the ordinary shareholders of the Company:-					
Basic	12		29.5p		150.3p
Diluted	12		28.0p		150.3p

The accounting policies and notes on pages 20 to 63 form part of these Financial Statements.

Consolidated Balance Sheet
As at 31 December 2007

	Note	2007 £000	2006 £000
Assets			
Intangible assets	14	12,215	11,747
Property, plant and equipment	15	205	292
Investment properties	16a	1,108	996
Financial assets			
- Investments	16b	214,818	235,729
- Deposits with ceding undertakings		3,901	4,623
Reinsurers' share of insurance liabilities	22	239,681	286,673
Current tax assets	19	269	-
Deferred tax asset	23	5,320	3,082
Insurance and other receivables	17	37,053	33,333
Cash and cash equivalents	18	57,681	91,940
Total assets		572,251	668,415
Liabilities			
Insurance contract provisions	22	466,382	543,504
Financial liabilities			
- Promissory note	21	-	2,564
- Preference shares	21	-	116
- Amounts owed to credit institutions	21	-	11,959
- Deposits received from reinsurers		4,814	6,857
Deferred tax liabilities	23	4,343	4,888
Insurance and other payables	20	22,016	47,310
Total liabilities		497,555	617,198
Equity			
Share capital	24	1,118	-
Shares to be issued	25	151	-
Share premium account	25	17,250	1,022
Capital redemption reserve	25	-	134
Retained earnings	25	56,177	50,059
Attributable to equity holders of the parent		74,696	51,215
Minority interests in subsidiary undertakings		-	2
Total equity		74,696	51,217
Total liabilities and equity		572,251	668,415

The Financial Statements were approved by the Board of Directors on 14 May 2008 and were signed on its behalf by:-

K E Randall **A K Quilter**

The accounting policies and notes on pages 20 to 63 form part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 £000	2006 £000
Cash flows from operating activities			
Profit before income taxes		7,025	38,560
Finance costs		1,695	748
Depreciation		218	219
Share based payments		748	-
Amortisation of intangible assets		6	1
Negative goodwill		-	(35,930)
Impairment of intangible assets		-	1,816
Fair value gain on financial assets		(3,730)	(192)
Gain on disposal of property, plant and equipment		-	(45)
Gain on net assets of pension schemes		(313)	(231)
Increase in receivables		(4,633)	(2,726)
Decrease/(increase) in deposits with ceding undertakings		722	(406)
Decrease in payables		(28,216)	(4,807)
Decrease in provisions for liabilities and charges		-	(529)
Decrease in net insurance technical provisions		(28,078)	(11,143)
		(54,556)	(14,665)
Sale of financial assets		34,675	2,729
Purchase of financial assets		(12,323)	(170,547)
Cash generated from operations		(32,204)	(182,483)
Income taxes paid		(1,414)	(87)
Net cash used in operating activities		(33,618)	(182,570)
Cash flows from investing activities			
Purchase of property, plant and equipment		(132)	(122)
Acquisition of subsidiary undertakings (net of cash acquired)		-	269,266
Proceeds from disposal of investment properties		-	1,300
Dividends paid to minority shareholders		-	(24)
Purchase of minority interest in subsidiary undertakings		-	(16)
Net cash (used in)/from investing activities		(132)	270,404
Cash flows from financing activities			
Repayment of borrowings		(25,228)	(3,915)
Redemption of preference D shares		(580)	(670)
New borrowing arrangements		14,352	11,183
Equity dividends paid		(1,400)	(1,775)
Interest and other finance costs paid		(1,231)	(212)
Receipts from issue of shares		15,966	-
Net cash from financing activities		1,879	4,611
Net (decrease)/increase in cash and cash equivalents		(31,871)	92,445
Cash and cash equivalents at beginning of year		90,857	5,949
Foreign exchange movement on cash and cash equivalents		(1,305)	(7,537)
Cash and cash equivalents at end of year	18	57,681	90,857

The accounting policies and notes on pages 20 to 63 form part of these Financial Statements.

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	Note	2007 £000	2006 £000
Recognised in the financial year:-			
Exchange losses on consolidation		(49)	(640)
Pension scheme actuarial (losses)/gains		(447)	614
Deferred tax on pension scheme actuarial (losses)/gains		134	(184)
Net expense recognised directly in equity		(362)	(210)
Profit for the year		8,053	38,937
Total recognised income for the year		7,691	38,727
Attributable to:-			
Equity holders of the parent	25	7,634	38,680
Minority interests		57	47
Total recognised in the year		7,691	38,727

The accounting policies and notes on pages 20 to 63 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1. Corporate information

Randall & Quilter Investment Holdings plc (the "Company") is a company domiciled and incorporated in England and Wales. Group companies carry on business in the UK, Europe, and North America as owners and managers of insurance companies in run off, consultants and service providers to the insurance industry and as purchasers of reinsurance receivables.

The financial statements were approved by the Board of Directors on 14 May 2008.

2. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), endorsed by the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The Company has elected to prepare its Parent Company Financial Statements in accordance with UK GAAP; these are presented on pages 69 to 75.

The Group Financial Statements have been prepared under the historical cost convention except that financial assets are stated at their fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period (Note 3). Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the current and future years depending on when the revision is made and the year it affects.

At the date of preparation of these consolidated financial statements a number of standards and other interpretations had been published by the International Accounting Standards Board but were not yet effective and have therefore not been adopted in these consolidated financial statements. These are:-

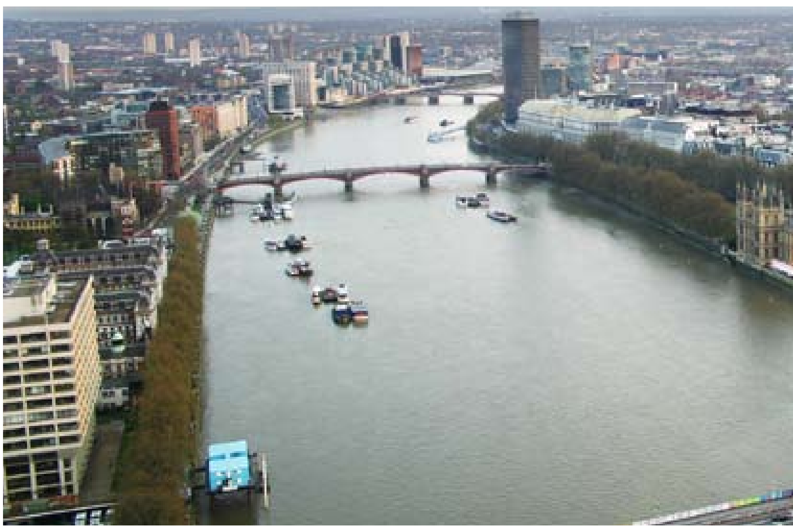
- IAS1: Presentation and Financial Statements (Revised)
- IAS23: Borrowing Costs (Revised)
- IFRS8: Operating Segments
- IFRIC11: Group and Treasury Share Transactions
- IFRIC12: Service Concession Arrangements
- IFRIC13: Customer Loyalty Programmes
- IFRIC14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

It is not anticipated that adoption of the above will have a material impact on the consolidated financial statements, except for IAS1 (Revised) and IFRS8 which may result in additional disclosures in the financial statements.

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the provisions for claims outstanding and the amounts due from reinsurers established in the insurance company subsidiaries as shown in the consolidated balance sheet. Further details of the uncertainties inherent in estimating technical reserves are set out in Note 3. 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 consolidated financial statements have been prepared and consolidated on a going concern basis since the Directors are of the opinion, based on information currently available, that each of the insurance company subsidiaries will continue in operational existence and be able to meet all their liabilities and obligations for the foreseeable future.



Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

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.

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 32. 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 and any guarantee liability that may arise.

The book value of the Group's investments in the insurance company subsidiaries at 31 December 2007 was £21.9m (2006: £21.9m).

b. Selection of accounting policies

The Directors exercise judgement in selecting each Group accounting policy. The accounting policies of the Group are selected by the Directors to present consolidated financial statements that they consider provide the most relevant information. For certain accounting policies there are different accounting treatments that could be adopted, each of which would be in compliance with IFRS and would have a significant influence upon the basis on which the consolidated financial statements are presented. The bases of selection of the accounting policies in accounting for financial assets and for the recognition of actuarial gains and losses related to pension obligations are set out here:-

- The Group accounting policy is to designate all financial assets that meet the necessary conditions as fair value through profit or loss. This designation allows the Group to recognise investment return against the movement in insurance technical provisions. The financial assets will be realised and used to settle the Group's insurance technical provisions as the business is run off.
- The Group accounting policy is to recognise actuarial gains and losses arising from the recognition and funding of the Group's pension obligations in equity in the period in which they arise. This policy has been adopted as it provides the most relevant basis of recognition of such gains and losses. The amount of any surplus recognised will be restricted as required by IAS19.

c. Consolidation

The consolidated financial statements incorporate the financial statements of the Company, and entities controlled by the Company (its subsidiaries), for the years ended 31 December 2007 and 2006. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired the difference is negative goodwill and is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the statement of recognised income and expense and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

2. Accounting policies (continued)

d. 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 period that they arise.

e. Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

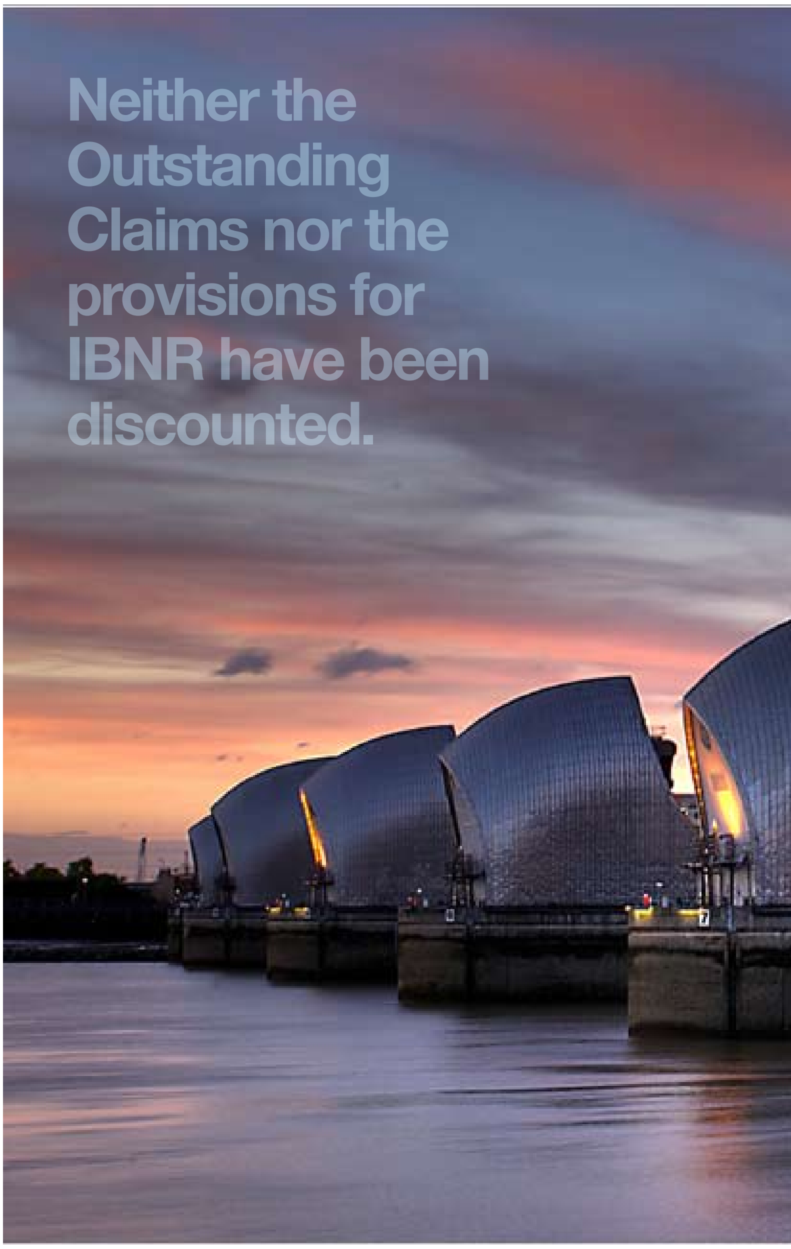
f. Claims provisions and related reinsurance recoveries

Provisions are 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 provisions 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 provisions for claims incurred but not reported (“IBNR”) in insurance company subsidiaries have 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.

A reinsurance asset (reinsurers’ share of insurance liabilities) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported under insurance liabilities. The amount recoverable from reinsurers is initially valued on the same basis as the underlying claims provision. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the contract and the event has a reliably measurable impact on the expected amount that will be recovered from the reinsurer.



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 materially from that presently estimated. Any differences between provisions and subsequent settlements are dealt with in the income statement in the year which they arise. Having regard to the significant uncertainty inherent in the business of the insurance

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

company subsidiaries as explained in Note 3, 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.

g. 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.

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

The uncertainty inherent in the process of estimating the period of run off and the payout pattern over that period, the anticipated run off administration costs to be incurred over that period and the level of investment return to be made are such that in the normal course of events unforeseen or unexpected future developments may cause the ultimate costs of settling the outstanding liabilities to differ from that previously estimated.

h. 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. The amounts payable to policyholders are recognised in liabilities. These are offset by the amounts that will be directly payable to policyholders by third party insurance companies.

In the opinion of the Directors, this treatment reflects the substance of the transaction on the basis that the liability of group companies under structured settlements is contingent upon the failure of the relevant third party life insurance companies.

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 such failure.

Disclosure of the position in relation to structured settlements is shown in Note 20.

i. Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

j. Foreign currency translation

(i) Functional and presentational currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in thousands of pounds Sterling, which is the Group's functional and presentational currency.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance Sheet date; the resulting foreign exchange gain or loss is recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated.

The assets and liabilities of overseas subsidiaries, including associated goodwill, held in functional currencies other than sterling are translated from their functional currency into sterling at the exchange rate at the balance sheet date. Income and expenses are translated at average rates for the period.

Foreign exchange differences arising from retranslation of the opening net assets of each overseas subsidiary and the opening net assets held in currency by each UK insurance company subsidiary are recognised initially in the statement of recognised income and expense and subsequently in the income statement in the period in which the entity is disposed of.

k. Financial instruments (assets and liabilities)

(i) Financial assets held for investment purposes

The Group has classified its investments as financial assets at fair value through profit or loss. The Group's strategy is to manage financial investments held to cover its insurance liabilities on the same basis, being fair value. As such the Group's investments are classified as fair value through profit or loss at inception.

Investments in listed securities are stated at their quoted bid price at the balance sheet date. Investments in unlisted securities are valued by the Directors on a prudent basis having regard to their likely realisable value.

Realised and unrealised gains and losses arising from changes in the fair value of financial assets designated as fair value through profit or loss are recognised in the income statement in the period in which they arise.

(ii) Investment properties

Investment properties, comprising freehold land and buildings, were held for long term rental yields and are not occupied by the Group. The Group is now seeking to sell these properties.

Investment properties are recorded at fair value, measured by independent professionally qualified valuers, who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment property being valued, on a triennial basis or more frequently and by internal valuers for interim periods, with reference to current market conditions. Related unrealised gains and unrealised losses or changes thereof are recognised in net investment income.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

(iii) Preference shares

Preference D shares are classified as liabilities in the balance sheet. Dividends payable and premiums or deficits on redemption of these preference shares are recognised in the income statement as part of finance costs.

Preference A, B and C shares are classified as equity.

l. 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. The income statement expense reflects the period in which the Company benefits from the employees services.

m. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classed as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

n. Property, plant and equipment

All assets included within property, plant and equipment ("PPE") are carried at historical cost. Depreciation is calculated to write down the cost less estimated residual value of motor vehicles, office equipment and computer equipment by the straight line method over their expected useful lives. The principal rates per annum used for this purpose are:-

	%
Motor vehicles	25
Office equipment/refurbishment	8 – 50
Computer equipment	25 – 33.3
Leasehold improvements	Term of lease

The gain or loss arising on the disposal of an item of PPE is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

o. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the fair value of the consideration paid for the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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 consolidated 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.

p. Other intangible assets

Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation and impairment. Amortisation is charged to operating expenses in the income statement on a straight line basis as follows:-

	%
Computer software	20 – 33.3

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement to reduce the carrying amount to the recoverable amount.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

q. Pensions

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 amount 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 at market value, and liabilities are measured using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability.

Current service cost, interest cost, the expected return on scheme assets and any curtailments/settlements are charged to the income statement. Pension liabilities are recognised and disclosed separately in the balance sheet. Surpluses are only recognised up to the aggregate of any cumulative unrecognised net actuarial gains and past service costs, and the present value of any economic benefits available in the form of any refunds or reductions in future contributions.

Subject to the restrictions relating to the recognition of a pension surplus, all actuarial gains and losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

r. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less from the date of acquisition, and bank overdrafts.

s. Investment income

Investment income comprises interest, dividends, realised and unrealised gains and losses on financial assets held at fair value through profit or loss.

The fair value of unrealised gains and losses is calculated as the difference between the current fair value at the balance sheet date and fair value at date of acquisition adjusted for previously recognised unrealised gains and losses of financial assets disposed of in the period.

Realised gains and losses are calculated as the difference between the net sales proceeds and the fair value at the previous balance sheet date or date of acquisition if in the period.

Dividend income is recognised when the right to receive that income is established.

t. Finance costs

Finance costs comprise loan and bank interest and redemption costs of preference shares treated as liabilities. Finance costs are recognised in the income statement on an accruals basis. Arrangement fees in relation to loan facilities are deducted from the relevant financial liability and amortised over the period of the facility.

u. Operating expenses

Operating expenses are accounted for on an accruals basis.

v. 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 income statement over the shorter of the life of the contract and five years.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

w. Other income

Other income includes the value of management and consultancy fees receivable, income from investment properties, the value of debt collection fees receivable and the proceeds of the sale or recovery of purchased reinsurance receivables and is stated excluding any applicable value added tax.

Management and Consultancy Fees

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

Income from investment properties

Income from investment properties is recognised on an accruals basis.

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 that the fee will be paid.

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 income statement.

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

x. Share based payments

The Group issues equity share based payments to certain of its employees.

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense on a straight line basis over the vesting period. The fair value is measured using the binomial option pricing method, taking into account the terms and conditions on which the awards were granted.

y. Income taxes

Tax on the profit or loss for the year comprises current and deferred tax.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax liabilities are provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination and which, at the time of the transaction, affects neither accounting nor taxable profit or loss, it is not provided for.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities are determined using tax rates that have been enacted by the balance sheet date or subsequently enacted and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

z. Share Premium Account

Incremental costs attributable to the issue of equity instruments are deducted from equity as a charge to the share premium account against the proceeds of the issue, net of tax.

3. Estimation techniques, uncertainties and contingencies

Claims provisions

The Group owns a number of insurance companies in run-off. The consolidated 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 consolidated 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.

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 type of business 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 settlement 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 provision 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 significant 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 decrease 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.

Insurance run-off 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.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2007

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, and the Group's own reserving standards and have regard to legal advice regarding the merits of any dispute.

Defined benefit pension scheme

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge or credit, calculated in accordance with IAS 19, are sensitive to the assumptions made, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and equity markets.

Litigation, mediation and arbitration

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries in the normal course of its business. The Directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and pending or threatened litigation or dispute will have a material adverse effect on the Group's financial position, although there can be no assurance that losses resulting from any current mediation, arbitration, regulatory, governmental or sectoral inquiries and pending or threatened litigation or dispute will not materially affect the Group's financial position or cash flows for any period.

Changes in foreign exchange rates

The Group's consolidated financial statements are prepared in pounds sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the US dollar, into pounds sterling will impact the reported consolidated financial position, results of operations and cash flows from year to year. These fluctuations in exchange rates will also impact the pound sterling value of our investments and the return on our investments. Income and expenses for each income statement item are translated at average exchange rates. Balance sheet assets and liabilities are translated at the closing exchange rates at the balance sheet date.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

4. Risk management

The Group's activities expose it to a variety of financial and non-financial risks. The Board is responsible for managing the Group's exposure to these risks and, where possible, for introducing controls and procedures that mitigate the effects of the exposure to risk.

The following describes the Group's exposure to the more significant risks and the steps management have taken to mitigate their impact from a quantitative and qualitative perspective.

a. Investment risks (including market risk)

The investment of the Group's financial assets, except certain deposits with ceding undertakings, is managed by external investment managers. The Board monitors the performance of the external investment managers on a regular basis and periodically agrees with them the investment strategy to be adopted to mitigate risks of interest rate fluctuation and credit risks and to provide appropriate liquidity.

The main objective of the investment policy is to maximise return whilst maintaining and protecting the principal value of funds under management.

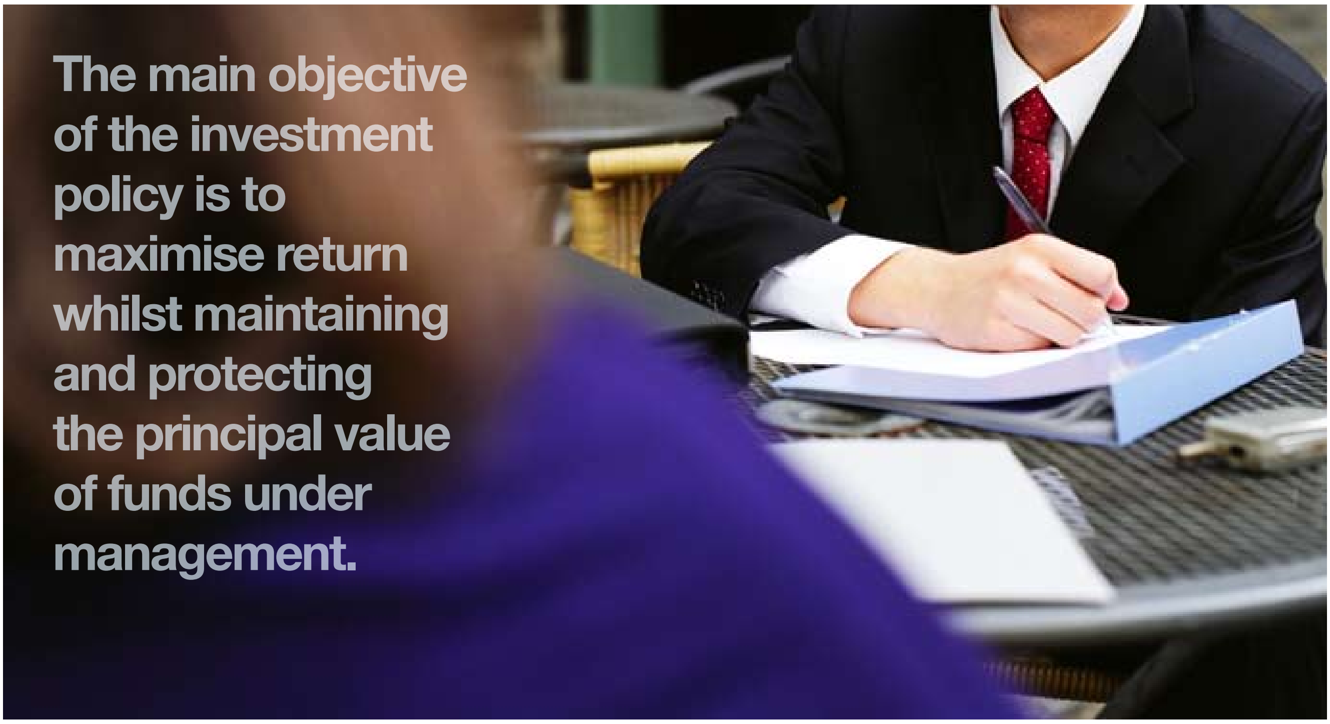
The investment allocation (including surplus cash) at the year end is shown here:-

	2007 £m	2006 £m
Government and government agencies	113.7	229.4
Corporate bonds	71.8	4.1
Equities	2.2	2.2
Cash based investment funds	27.1	-
Cash and cash equivalents	57.7	91.0
Others	-	0.9
Less bank overdrafts	-	(1.1)
	272.5	326.5

	%	%
Government and government agencies	41.7	70.2
Corporate bonds	26.4	1.2
Equities	0.8	0.7
Cash based investment funds	10.0	-
Cash and cash equivalents	21.1	27.8
Others	-	0.1
	100.0	100.0

Corporate bonds includes asset backed mortgage obligations totalling £4.0m (2006: £4.0m).

Based on invested assets at external managers of £214,799,000 as at 31 December 2007 (2006: £235,729,000) a 1 percentage increase/decrease in fair value would result in an increase/decrease in the profit before income taxes for the year to 31 December 2007 of £2,147,990 (2006: £2,357,290).



Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

The following shows the Group's securities maturity dates and interest rate ranges:-

31 December 2007

Maturity date or contractual re-pricing date

	Total	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	£m	£m	£m	£m	£m	£m
Fixed rate	212.6	83.3	60.5	37.6	22.0	9.2

Interest rate ranges (coupon-dates)

	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	%	%	%	%	%
Fixed rate	0-6.61	3.25-6.625	3.55-8.75	4.5-7	4.875-11.5

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

4. Risk management (continued)

a. Investment risks (including market risk) (continued)

31 December 2006

Maturity date or contractual re-pricing date

	Total	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	£m	£m	£m	£m	£m	£m
Fixed rate	254.5	28.1	114.8	84.0	14.0	13.6

Interest rate ranges (coupon-dates)

	Less than one year	After one year but less than two years	After two years but less than three years	After three years but less than five years	More than five years
	%	%	%	%	%
Fixed rate	2.75-7.25	3-5.75	3-6.625	4.25-8.75	4.875-11.5

b. Credit risk

Credit risk arises on all the Group's financial assets, however the most significant area where it arises is where reinsurers fail to meet their obligations in full as they fall due. In addition, the Group is exposed to the risk of disputes on individual claims presented to its reinsurers or in relation to the contracts entered into with its reinsurers.

The ratings used in the below analysis are based upon the published rating of Standard & Poor's or other recognised ratings agency.

As at 31 December 2007

	A rated £000	B rated £000	Less than B £000	Other £000	Exposures of less than £0.2m £000	Total £000
Deposits with ceding undertakings	703	559	-	309	2,330	3,901
Reinsurers' share of insurance liabilities	144,139	18,923	407	38,055	38,157	239,681
Receivables arising out of reinsurance contracts	17,367	2,509	286	3,946	6,589	30,697

The average credit period of receivables arising out of reinsurance contracts are as follows:-

	0-6 months	6-12 months	12-24 months	> 24 months
Percentage of receivables	52.1%	10.4%	17.2%	20.3%

As at 31 December 2006

	A rated £000	B rated £000	Less than B £000	Other £000	Exposures of less than £0.2m £000	Total £000
Deposits with ceding undertakings	714	1,337	-	1,073	1,499	4,623
Reinsurers' share of insurance liabilities	126,131	30,395	6,999	51,091	72,057	286,673
Receivables arising out of reinsurance contracts	10,455	3,210	874	4,050	4,951	23,540

The reinsurers share of insurance liabilities is based upon a best estimate given the profile of the insurance provisions outstanding and the related IBNR.

c. 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. This includes a review of performance against agreed benchmarks on a monthly basis.

The cash position of each company within the Insurance Services Division and the Liquidity Management Division is monitored weekly to ensure that sufficient funds are available to meet liabilities as they fall due.

The management contracts within Cavell Management Services Limited are typically structured such that fees are payable by clients quarterly or annually in advance providing the division with sufficient working capital to support the obligations of all companies within the division.

d. Currency risk

The Group and in particular the insurance companies are exposed to currency risk generated through regular trading activity denominated in currencies other than their functional currency. The most significant currencies to which the companies are exposed are the US Dollar and the Euro. Group policy requires that the Directors do not hedge but seek where possible to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. As the Group reports in Sterling, any fluctuations in foreign currency are reflected in the consolidated financial statements.

The sterling equivalent of monetary assets and liabilities held by the Group designated in US dollars at the period-end are as follows:-

US Dollars	**2007 £000**	**2006 £000**
Reinsurance assets	209,755	244,499
Financial investments	160,430	198,776
Insurance receivables	24,629	14,711
Cash and cash equivalents	26,851	68,063
Insurance liabilities including provisions	(414,936)	(483,224)
Other provisions	(4,377)	(4,782)
Trade and other receivables/(payables)	5,313	(15,272)
	7,665	22,771

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

4. Risk management (continued)

d. Currency risk (continued)

A 10 per cent increase/decrease in the value of the US Dollar against Sterling would result in an increase/decrease in the net asset value as at 31 December 2007 of £706,000 (2006: £2,277,000).

The sterling equivalent of monetary assets and liabilities held by the Group designated in Euros at the year end are as follows:-

Euro	**2007 £000**	**2006 £000**
Reinsurance assets	2,325	2,473
Financial investments	1,833	2,096
Insurance receivables	62	17
Cash and cash equivalents	10,093	842
Insurance liabilities including provisions	(9,588)	(12,033)
Trade and other payables	(72)	(91)
	4,653	(6,696)

A 10 per cent increase/decrease in the value of the Euro against Sterling would result in an increase/decrease in the net asset value as at 31 December 2007 of £465,000 (2006: decrease/increase of £670,000).

e. Interest rate risk

The Group's main exposure to fluctuation in interest rates arises in its effect on the value of funds invested in bonds and equities. In order to mitigate this risk, the investment committees of the insurance companies, together with the external investment managers, attempts to anticipate any future interest rate movement and to take appropriate action to mitigate its effect on the value of investments held.

f. Insurance risk

None of the Group's insurance subsidiaries are writing new business and all are in run-off; the date at which each entity went into run off together with the date that each was acquired by the Group is summarised below:-

Subsidiary	**Date business entered run off**	**Date acquired by the Group**
Ludgate*	1987	4 August 1992
La Metropole SA	1995	29 November 2000
Transport Insurance Company	1996	30 November 2004
R&Q Reinsurance Company	1994	3 July 2006
R&Q Reinsurance Company (Belgium) Limited	1994	3 July 2006
R&Q Reinsurance Company (UK) Limited	1990	3 July 2006
Chevanstell Limited	2003	10 November 2006
Arran Insurance Company Limited	1984	21 December 2006

* Ludgate was de-authorised as an insurance company by the FSA on 10 July 2007.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

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 insurance risks which affect the insurance companies are:-

- Reinsurance risk – the risk that the reinsurers of the insurance companies will dispute the coverage of losses
- Claims risk – a series of claims in respect of a latent liability that the insurance industry is not currently aware of
- Legal risk – changes in statute or legal precedent
- Reserving risk – the risk that the reserves established by the companies 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.

Claims development information is disclosed in order to illustrate the effect of the uncertainty in the estimation of future claims settlements by the Group. The tables compare the ultimate claims estimates with the payments made to date. Details are only presented on an aggregate basis and look at the movements on a gross and net basis, and separately identify the effect of the various acquisitions made by the Group since 1 January 2004.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

4. Risk management (continued)

f. Insurance risk (continued)

Analysis of claims development – gross (including claims handling expenses)

	Group entities at 1 January 2004 £000	Entities acquired by the group during 2004 £000	Entities acquired by the group during 2005 £000	Entities acquired by the Group during 2006 £000
Gross reserves at:				
1 January 2004/acquisition	4,914	89,221	-	499,383
First year movement	48	(1,375)	-	(46,472)
Second year movement	(2,385)	14,750	-	(72,066)
Third year movement	(2,482)	(12,098)	-	-
Fourth year movement	(4)	(5,052)	-	-
Gross position at 31 December 2007	91	85,446	-	380,845
Estimated gross ultimate claims at:				
1 January 2004/acquisition	4,914	89,221	-	499,383
Foreign exchange	(333)	(4,253)	-	(23,452)
Payments in the period	(4,692)	(10,527)	-	(77,564)
Gross position at 31 December 2007	(91)	(85,446)	-	(380,845)
(Deficit)/surplus to date	(202)	(11,005)	-	17,522

No insurance operations have been acquired by the Group during 2007.

Analysis of claims development – net

	Group entities at 1 January 2004 £000	Entities acquired by the group during 2004 £000	Entities acquired by the group during 2005 £000	Entities acquired by the Group during 2006 £000
Net reserves at:				
1 January 2004/acquisition	4,853	3,603	-	276,958
First year movement	109	(38)	-	(23,490)
Second year movement	(2,385)	1,751	-	(30,099)
Third year movement	(2,482)	(2,048)	-	-
Fourth year movement	(4)	(27)	-	-
Net position at 31 December 2007	91	3,241	-	223,369
Estimated net ultimate claims at:				
1 January 2004/acquisition	4,853	3,603	-	276,958
Foreign exchange	(332)	(149)	-	(13,847)
Net payments in the period	(4,455)	(2,029)	-	(37,240)
Net position at 31 December 2007	(91)	(3,241)	-	(223,369)
(Deficit)/surplus to date	(25)	2,242	-	2,502

No insurance operations have been acquired by the Group during 2007.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

g. 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.

h. Property Price Risk

The Group is subject to property price risk due to holding investment properties. No derivate contracts have been entered into to mitigate the effects of changing property prices.

i. Operational Risk

Operational risks arise as a result of inadequately controlled internal processes or systems, human error or external events.

This definition is intended to include all risks to which the Group is exposed, other than the financial risks described previously, and strategic and risks of the Group which are considered elsewhere. It includes risks relating to regulation, financial procedures, information technology, financial crime, business protection, human resources, outsourcing, purchasing, communications and legal.

j. Capital Risk Management

The Directors have overall responsibility for managing the Group's capital base with the principal objectives of maintaining a sufficient capital to satisfy regulatory requirements. The Directors also recognise the need to maintain a strong capital base that provides the necessary protection to policy holders and creditors at the same time generating sufficient returns to create shareholder value.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

5. Segmental information

The Group has three primary segments:-

- Insurance companies in run-off
- Insurance services (including liquidity management)
- Other corporate activities

Primary segment information – Segment result for the year ended 31 December 2007

	Insurance run-off £000	Insurance services £000	Other corporate £000	Consolidation adjustments £000	Total £000
Gross premium written	1,460	-	-	-	1,460
Reinsurers' share of gross premium	35	-	-	-	35
Earned premium net of reinsurance	1,495	-	-	-	1,495
Net investment income	15,819	103	19	-	15,941
Other income	-	22,239	208	(12,818)	9,629
	15,819	22,342	227	(12,818)	25,570
Total income	17,314	22,342	227	(12,818)	27,065
Gross claims paid	(61,722)	-	-	-	(61,722)
Reinsurers' share of gross claims paid	33,860	-	-	-	33,860
Claims paid, net of reinsurance	(27,862)	-	-	-	(27,862)
Movement in gross technical provisions	71,282	-	-	-	71,282
Movement in reinsurers' share of technical provisions	(43,204)	-	-	-	(43,204)
Net change in provision for claims	28,078	-	-	-	28,078
Net insurance claims incurred	216	-	-	-	216
Operating expenses	(12,607)	(16,952)	(1,596)	12,818	(18,337)
	(12,391)	(16,952)	(1,596)	12,818	(18,121)
Earnings before interest, tax, depreciation and amortisation	4,923	5,390	(1,369)	-	8,944
Depreciation and amortisation	(22)	(202)	-	-	(224)
Result of operating activities	4,901	5,188	(1,369)	-	8,720
Finance costs	-	-	(1,695)	-	(1,695)
Management charges	-	(3,226)	3,226	-	-
Profit on ordinary activities before income taxes	4,901	1,962	162	-	7,025
Income tax credit	(427)	1,474	(19)	-	1,028
Profit for the year	4,474	3,436	143	-	8,053
Segment assets	569,416	9,261	35,144	(41,570)	572,251
Segment liabilities	493,702	3,642	12,583	(12,372)	497,555

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

Primary segment information – Segment result for the year ended 31 December 2006

	Insurance run-off £000	Insurance services £000	Other corporate £000	Consolidation adjustments £000	Total £000
Gross premium written	290	-	-	-	290
Reinsurers' share of gross premium	(46)	-	-	-	(46)
Earned premium net of reinsurance	244	-	-	-	244
Net investment income	7,068	80	5	-	7,153
Other income	-	18,154	733	(3,317)	15,570
	7,068	18,234	738	(3,317)	22,723
Total income	7,312	18,234	738	(3,317)	22,967
Gross claims paid	(25,583)	-	-	-	(25,583)
Reinsurers' share of gross claims paid	13,931	-	-	-	13,931
Claims paid, net of reinsurance	(11,652)	-	-	-	(11,652)
Movement in gross technical provisions	29,063	-	-	-	29,063
Movement in reinsurers' share of technical provisions	(13,435)	-	-	-	(13,435)
Net change in provision for claims	15,628	-	-	-	15,628
Net insurance claims incurred	3,976	-	-	-	3,976
Operating expenses	(7,429)	(16,406)	(1,011)	3,317	(21,529)
	(3,453)	(16,406)	(1,011)	3,317	(17,553)
Earnings before interest, tax, depreciation and amortisation	3,859	1,828	(273)	-	5,414
Depreciation and amortisation	-	(220)	-	-	(220)
Operating result before negative goodwill and impairment of intangible assets	3,859	1,608	(273)	-	5,194
Negative goodwill	-	-	-	35,930	35,930
Impairment of intangible assets	-	(892)	-	(924)	(1,816)
Result of operating activities	3,859	716	(273)	35,006	39,308
Finance costs	-	(8)	(740)	-	(748)
Management charges	-	(832)	832	-	-
Profit on ordinary activities before income taxes	3,859	(124)	(181)	35,006	38,560
Income tax credit	-	377	-	-	377
Profit/(loss) for the year	3,859	253	(181)	35,006	38,937
Segment assets	654,980	18,053	22,600	(27,218)	668,415
Segment liabilities	596,587	17,638	21,219	(18,246)	617,198

The Group's Insurance Services Division makes charges to the Group's insurance subsidiaries. These amounts are eliminated in the consolidated income statement. These charges are charged against the insurance companies claims handling cost provision. The claims handling costs have, as stated in the accounting policies Note 2, been provided only to the extent that they exceed the future investment return expected to be earned by those subsidiaries.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

5. Segmental information (continued)
Secondary segment information – geographical analysis

As at 31 December 2007

	UK £000	United States £000	Europe £000	Total £000
Gross assets	227,684	352,929	21,074	601,687
Intercompany eliminations	(27,499)	(1,937)	-	(29,436)
Segment assets	200,185	350,992	21,074	572,251
Gross liabilities	165,111	340,358	21,522	526,991
Intercompany eliminations	(26,058)	(2,541)	(837)	(29,436)
Segment liabilities	139,053	337,817	20,685	497,555
Segment income	15,971	11,039	55	27,065

Secondary segment information – geographical analysis

As at 31 December 2006

	UK £000	United States £000	Europe £000	Total £000
Gross assets	255,981	410,373	22,398	688,752
Intercompany eliminations	(18,497)	(1,819)	(21)	(20,337)
Segment assets	237,484	408,554	22,377	668,415
Gross liabilities	203,701	410,113	23,721	637,535
Intercompany eliminations	(12,652)	(6,637)	(1,048)	(20,337)
Segment liabilities	191,049	403,476	22,673	617,198
Segment income	12,758	9,660	549	22,967

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

Primary segment information – other information

As at 31 December 2007

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Assets acquired through business combination	-	-	-	-	-
Capital expenditure	1	131	-	-	132
Depreciation	35	183	-	-	218

As at 31 December 2006

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Assets acquired through business combination	225,262	-	-	-	225,262
Capital expenditure	8	82	-	-	90
Depreciation	26	193	-	-	219

6. Net investment income

	2007 £000	2006 £000
Investment income	12,756	7,531
Realised gains on financial assets	305	37
Unrealised gains/(losses) on financial assets	3,425	(349)
Investment management expenses	(545)	(66)
	15,941	7,153

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

7. Other income

	2007 £000	2006 £000
Administration of third party insurance companies in run-off	8,603	14,782
Expected return on pension scheme assets	1,581	1,608
Interest on pension scheme liabilities	(1,199)	(1,114)
Proceeds of purchased reinsurance receivables (including debt collection fees)	644	294
	9,629	15,570

8. Operating expenses

	2007 £000	2006 £000
Costs of insurance company subsidiaries	3,049	4,112
Other operating expenses	15,512	17,637
	18,561	21,749

The costs of insurance company subsidiaries exclude group charges.

9. Finance costs

	2007 £000	2006 £000
Bank loan and overdraft interest	951	162
Other finance costs	268	-
Preference D share dividend and premium on redemption	476	586
	1,695	748

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

10. Profit on ordinary activities before income taxes

	2007 £000	2006 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):-		
Employee benefits	10,559	11,949
Payment to employee benefit trust	40	400
Total employee benefits expense (Note 27)	10,599	12,349
Depreciation of fixed assets	218	219
Amortisation of intangible assets	6	1
Amortisation of pre contract costs	166	66
Operating lease rental expenditure	796	566
Operating lease rental income	(426)	(426)

Auditors' remuneration:

	2007 £000	2006 £000
Fees payable to the Company's auditor for the audit of the annual accounts	35	34
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' subsidiaries under legislative requirements:-		
The Company's auditor	161	186
Its associates	151	125
	312	311
Other services under legislative requirements	33	23
Services relating to corporate finance transactions		
Pre-acquisition due diligence and advice	-	61
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	63	40

Excluded from the auditors remuneration above is £659,000 relating to the audit of the September 2007 financial statements and other reports in connection with the AIM listing. This amount has been charged to the share premium account.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

11. Income tax

	2007 £000	2006 £000
a. Analysis of charge in the year		
Current tax – continuing operations		
Current period	-	(352)
Adjustments in respect of previous years	(1,492)	4
Foreign tax	(59)	(109)
	(1,551)	(457)
Deferred tax	2,579	834
Income tax credit	1,028	377

b. Factors affecting tax charge for the year

The tax assessed differs from the standard rate of corporation tax in the United Kingdom. The differences are explained below:-

	2007 £000	2006 £000
Profit on ordinary activities before taxation	7,025	38,560
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	2,107	11,568
Permanent differences	(236)	(9,093)
Capital allowances for the year in excess of depreciation	(25)	-
Utilisation of tax losses	(928)	(2,999)
Timing differences – pension schemes	(134)	(30)
Other timing differences	(2,147)	42
Unrelieved losses	3,678	66
Insurance company losses deferred	(4,952)	-
Foreign tax rate differences	117	73
Adjustments to the tax charge in respect of prior periods	1,492	(4)
Income tax credit for the year	(1,028)	(377)

Included within the deferred tax credit for 2007 is an amount of £1,300,000 which is recognised for losses existing within the insurance company subsidiaries, that are expected to be utilised in 2008.

c. Factors that may affect future tax charges

In addition to the losses that make up the deferred tax asset the Group has other trading losses of approximately £71.5m (2006: £76.0m) 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, with the exception of the asset disclosed in Note 11b above. 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.

12. Earnings/net asset value per share

a. Basic earning per share

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2007 £000	2006 £000
Profit for the year attributable to Ordinary shareholders	7,996	37,584

	No. 000's	No. 000's
Shares in issue throughout the year	25	25
Bonus issue (see Note 24)	49,975	49,975
Converted to Ordinary 2p shares (see Note 24)	(25,000)	(25,000)
Weighted average number of shares issued in the year	2,113	-
Weighted average number of Ordi nary shares	27,113	25,000
Basic earnings per Ordinary share	29.5p	150.3p

b. Diluted earning per share

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares to assume conversion of all potentially dilutive Ordinary shares. The Group's earnings per share is diluted by the effects of outstanding share options.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	2007 £000	2006 £000
Profit for the year attributable to Ordinary shareholders	7,996	37,584

	No. 000's	No. 000's
Weighted average number of Ordinary shares in issue in the year	27,113	25,000
Options (see Note 28)	1,430	-
	28,543	25,000
Diluted earnings per Ordinary share	28.0p	150.3p

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

12. Earnings/net asset value per share (continued)

c. Net asset value per share

	2007 £000	2006 £000
Net assets as at 31 December	74,696	51,217

	No. 000's	No. 000's
Ordinary shares in issue as at 31 December 2007	55,903	55,903
Net asset value per Ordinary share	133.6p	91.6p

For comparison purposes the same number of Ordinary shares in issue at 31 December 2007 has been used to calculate the net asset value per share at 31 December 2006.

13. Dividends

The amounts recognised as distributions to equity holders in the period are:-

	2007 £000	2006 £000
Dividend to equity shareholders	-	175
Dividend to Preference C shareholder	1,400	1,600
	1,400	1,775

14. Intangible assets

	Patents £000	Goodwill £000	Software £000	Total £000
As at 1 January 2006	1	1,574	951	2,526
Exchange adjustments	-	-	(117)	(117)
Acquired in the year	-	11,080	75	11,155
Amortised in the year	-	-	(1)	(1)
Impaired in the year	-	(924)	(892)	(1,816)
As at 31 December 2006	1	11,730	16	11,747
Exchange adjustments	-	-	-	-
Acquired in the year	-	474	-	474
Amortised in the year	-	-	(6)	(6)
As at 31 December 2007	1	12,204	10	12,215

When testing for impairment of goodwill the recoverable amount of each relevant cash generating subsidiary is determined based on cash flow projections. These cash flow projections are based on the financial budgets approved by management covering a five year period. Management also consider the current net asset value and earnings of each cash generating subsidiary. Management does not believe that a change in any of the key assumptions would cause the carrying value of each relevant cash generating subsidiary to materially exceed its recoverable amount.

The carrying amounts disclosed above for other intangible assets reasonably approximate their fair values at the balance sheet date.

15. Property, plant and equipment

	Computer equipment £000	Motor vehicles £000	Office equipment £000	Leasehold improvements £000	Total £000
Cost					
As at 1 January 2006	711	61	565	70	1,407
Exchange adjustments	(52)	(1)	(8)	-	(61)
Additions	71	-	19	-	90
Disposals	(6)	-	-	-	(6)
As at 31 December 2006	724	60	576	70	1,430
Exchange adjustments	(24)	-	(1)	-	(25)
Additions	81	-	51	-	132
Disposals	(31)	(21)	(3)	-	(55)
As at 31 December 2007	750	39	623	70	1,482
Depreciation					
As at 1 January 2006	585	26	355	68	1,034
Exchange adjustments	(103)	(1)	(5)	-	(109)
Charge for the year	100	11	106	2	219
Disposals	(6)	-	-	-	(6)
As at 31 December 2006	576	36	456	70	1,138
Exchange adjustments	(23)	-	(1)	-	(24)
Charge for the year	106	13	99	-	218
Disposals	(31)	(21)	(3)	-	(55)
As at 31 December 2007	628	28	551	70	1,277
Carrying amount					
At 31 December 2007	122	11	72	-	205
At 31 December 2006	148	24	120	-	292

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

As at 31 December 2007, the Group had no capital commitments (2006: £nil). The depreciation charge for the year is included in administrative expenses.

16. Financial assets

a. Investment properties

	2007 £000	2006 £000
As at 31 December	1,108	996

The increase in the valuation of these properties is due to a fair value adjustment of £91,000 and an exchange adjustment of £21,000.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

b. Financial investment assets at fair value through profit or loss (designated at initial recognition)

	2007 £000	2006 £000
Equities	2,155	2,226
Debt securities – fixed interest rate	212,663	233,503
	214,818	235,729

In the normal course of business insurance company subsidiaries have deposited investments of £19,298,049 in respect of certain contracts in escrow which can only be released or withdrawn with the approval of the appropriate regulatory authority.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2007

c. Shares in subsidiary undertakings and other investments

The Company has interests in the following principal subsidiaries at 31 December 2007, which, except where indicated, are registered in England and Wales:-

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

17. Other receivables, including insurance receivables

	2007 £000	2006 £000
Debtors arising from direct insurance operations	956	227
Debtors arising from reinsurance operations	30,697	23,540
Insurance receivables	31,653	23,767
Trade debtors	487	2,192
Other debtors/receivables	965	3,221
Prepayments and accrued income	3,948	4,153
	5,400	9,566
	37,053	33,333
Due within 12 months	36,624	32,665
Due after 12 months	429	668
	37,053	33,333

Pre-payments and accrued income includes £429,343 (2006: £594,247) in respect of pre contract costs which will be expensed after more than one year.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

18. Cash and cash equivalents

	2007 £000	2006 £000
Cash in bank and at hand	57,681	91,940
Amount owed to credit institutions	-	(1,083)
	57,681	90,857

Included in cash and cash equivalents is £375,000 (2006: £nil) being funds held in escrow accounts in respect of guarantees provided to the Institute of London Underwriters (ILU). See Note 32.

In addition a further amount of £250,000 (2006: £250,000) is held in escrow in respect of an ongoing dispute.

In the normal course of business insurance company subsidiaries will have deposited funds in respect of certain contracts which can only be released with the approval of the appropriate regulatory authority.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

19. Current income tax

	2007 £000	2006 £000
Current tax asset	269	-

20. Trade and other payables

	2007 £000	2006 £000
Structured liabilities	294,000	297,000
Structured settlements	(294,000)	(297,000)
	-	-
Creditors arising from reinsurance operations	11,753	15,436
Creditors arising from direct insurance operations	3,797	3,109
Insurance payables	15,550	18,545
Trade creditors	2,548	1,242
Other taxation and social security	399	401
Other creditors	163	22,631
Accruals and deferred income	3,356	4,491
	22,016	47,310
Due within 12 months	22,016	46,852
Due after 12 months	-	458
	22,016	47,310

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

The Group has purchased 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 very unlikely. The life companies will settle the liability directly with the claimants and no cash will flow through the group. Accordingly, these assets and liabilities have been offset to reflect the substance of the transactions and to ensure that the disclosure of the balances does not detract from the users' ability to understand the Group's future cash flows.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

21. Financial liabilities

a. Total financial liabilities

	2007 £000	2006 £000
Preference D shares (Note 21 b)	-	116
Promissory note	-	2,564
Amounts owed to credit institutions	-	11,959
	-	14,639

Amounts due to credit institutions are payable as follows:-

	2007 £000	2006 £000
Less than one year	-	3,808
Between one to five years	-	8,151
More than five years	-	-
	-	11,959

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

As outlined in Note 34 the amounts owed to credit institutions are secured by debentures over the assets of the Company, Randall & Quilter Consultants Limited and Cavell Management Services Limited.

b. Preference D shares

	2007 £000	2006 £000
Authorised		
Preference D shares of £1 each	-	250
Allotted, called up and fully paid		
Preference D shares of £1 each	-	116

Preference D Shares have rights to a cumulative dividend of 10 percent 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.

On 6 July 2006, 134,000 of the Preference D shares were redeemed by the Company at £5 per share. The balance was redeemed on 29 June 2007 at £5 per share.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

22. Insurance contract provisions and reinsurance balances

Gross	2007 £000	2006 £000
Claims outstanding at 1 January	543,504	105,173
Claims paid	(61,722)	(25,583)
Increase in reserves arising from the acquisition of subsidiary undertakings	-	499,383
Release of reserves	(9,560)	(3,480)
Net exchange differences	(5,840)	(31,989)
As at 31 December	466,382	543,504

Reinsurance	2007 £000	2006 £000
Reinsurance share of claims outstanding at 1 January	286,673	97,280
Reinsurers share of gross claims paid	(33,860)	(13,931)
Increase in reserves arising from the acquisition of subsidiary undertakings	-	228,400
(Release)/strengthening of reserves	(9,344)	496
Net exchange differences	(3,788)	(25,572)
As at 31 December	239,681	286,673

Net	2007 £000	2006 £000
Net claims outstanding at 1 January	256,831	7,893
Net claims paid	(27,862)	(11,652)
Increase in reserves arising from the acquisition of subsidiary undertakings	-	270,983
Release of reserves	(216)	(3,976)
Net exchange differences	(2,052)	(6,417)
As at 31 December	226,701	256,831

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

Assumptions, changes in assumptions and sensitivity

The assumptions used in the estimation of reserves relating to insurance contracts are intended to result in provisions which are sufficient to settle the net liabilities from insurance contracts.

Provision is made at the balance sheet date for the estimated ultimate cost of settling all claims incurred in respect of events and developments up to that date, whether reported or not. The source of data used as inputs for the assumptions is primarily internal.

As detailed in Note 3 significant uncertainty exists as to the likely outcome of any particular claim and the ultimate costs of completing the run off of the Group's insurance operations.

The reserves carried by the Group are calculated using a variety of actuarial techniques. The reserves are calculated and reviewed by the Group's internal actuarial team; in addition the Group periodically commissions independent external actuarial reviews. The use of external advisors provides management with additional comfort that the Groups internally produced statistics and trends are consistent with observable market information and other published data.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

22. Insurance contract provisions and reinsurance balances (continued)

As detailed in Note 2 when preparing these consolidated financial statements full provision is made for all costs of running off the business of the insurance subsidiaries to the extent that the provision exceeds the estimated future investment return expected to be earned by those subsidiaries. The quantum of the costs of running off the business and the future investment income has been determined through the preparation of cash flow forecasts over the anticipated period of the run offs using internally prepared budgets and forecasts of expenditure, investment income and actuarially assessed settlement patterns for the gross reserves. The gross costs of running off the business are estimated to be fully covered by investment income.

Provisions for outstanding claims and IBNR are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Group is covered by a variety of treaty, excess of loss and stop loss reinsurance programmes.

The reserves disclosed in the consolidated financial statements are sensitive to a variety of factors including:-

- Settlement and commutation activity of third party lead reinsurers
- Development in the status of settlement and commutation negotiations being entered into by the Group
- The financial strength of the Group's reinsurers and the risk that these entities could, in time, become insolvent or could otherwise default on payments
- Future cost inflation of legal and other advisors who assist the Group with the settlement of claims
- Changes in statute and legal precedent which could particularly impact reserves for asbestos, pollution and other latent exposures
- Arbitration awards and other legal precedents which could particularly impact upon the presentation of both inwards and outwards claims on the Group's exposure to major catastrophe losses

The assumptions that have the greatest effect on the measurement of the insurance contract provisions include those relating to reinsurance recoveries. A 1 per cent reduction in reinsurers share of technical provisions would decrease net assets by £2,396,840 (2006: £2,866,730).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28.5 percent (2006 - 30 percent).

Deferred tax assets and liabilities

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Deferred tax assets £000	Deferred tax liabilities £000	Total £000
As at 1 January 2006	272	(5,860)	(5,588)
Credit for the year	2,810	972	3,782
As at 31 December 2006	3,082	(4,888)	(1,806)
Credit for the year	2,238	545	2,783
As at 31 December 2007	5,320	(4,343)	977

The deferred tax assets are not wholly recoverable within 12 months.

The movement on the deferred tax account is shown below:-

	Accelerated capital allowances £000	Trading losses £000	Pension scheme surplus/ (deficit) £000	Other timing differences £000	Total £000
As at 1 January 2006	58	688	214	(6,548)	(5,588)
Movement in year	(10)	(688)	(284)	4,764	3,782
As at 31 December 2006	48	-	(70)	(1,784)	(1,806)
Movement in year	1	-	70	2,712	2,783
As at 31 December 2007	49	-	-	928	977

Movements in the provisions for deferred taxation are disclosed in the financial statements as follows:-

	On acquisition of subsidiary	Exchange adjustment	Deferred tax in income statement £000	Deferred tax in statement of recognised expense £000	Total £000
Movement in 2006	2,605	597	834	(254)	3,782
Movement in 2007	-	-	2,579	204	2,783

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

24. Share capital

	2007 £	2006 £
Authorised		
63,000,000 Ordinary Shares of 2p each (2006: 100,000 Ordinary shares of 1p each)	1,260,000	1,000
1 Preference A Share of £1 each	1	1
1 Preference B Share of £1 each	1	1
120,000 Preference C Shares of £1 each	-	120,000
250,000 Preference D Shares of £1 each	-	250,000
	1,260,002	371,002
Allotted, called up and fully paid		
55,902,500 Ordinary Shares of 2p each (2006: 25,000 Ordinary shares of 1p each)	1,118,050	250
1 Preference A Share of £1 each	1	1
1 Preference B Share of £1 each	1	1
Preference D Shares of £1 each	-	116,000
	1,118,052	116,252
Allotted, nil called		
Preference C Shares of £1 each	-	-
	-	-
Included in:-		
Equity		
55,902,500 Ordinary Shares of 2p each (2006: 25,000 Ordinary shares of 1p each)	1,118,050	250
1 Preference A Share of £1 each	1	1
1 Preference B Share of £1 each	1	1
Preference C Shares of £1 each	-	-
	1,118,052	252
Liabilities		
Preference D Shares of £1 each	-	116,000

On 29 June 2007 116,000 of the Preference D shares were redeemed by the Company at £5 per share.

On 31 October 2007 the authorised ordinary share capital of the Company was increased by the creation of an additional 49,975,000 Ordinary Shares of £0.01 each ranking pari passu with the existing Ordinary Shares in the capital of the Company.

On 31 October 2007 an ordinary resolution was passed approving the capitalisation of £250,000 of the amount standing to the credit of the Company's capital redemption reserve and £249,750 of the amount standing to the credit of its share premium account. It was agreed that these sums be applied in paying up in full at par 49,975,000 new Ordinary Shares of £0.01 each in the capital of the Company, ranking pari passu in all respects with the existing Ordinary Shares and the Directors be authorised to appropriate, allot and distribute the same, credited as fully paid, to and amongst the persons registered as the holders of the existing Ordinary Shares at the close of business on 31 October 2007 in the proportion of 1,999 new Ordinary Shares for every 1 Ordinary Share held by such persons respectively.

On 20 November 2007 the Company redeemed all 120,000 of the Preference C Shares.

On 20 November 2007 the 120,000 authorised Preference C Shares of £1 each and the 250,000 authorised Preference D Shares of £1 each were converted into 37,000,000 Ordinary Shares of £0.01 each, ranking pari passu with the existing Ordinary Shares in the capital of the Company.

On 20 November 2007 a further 24,665,000 Ordinary Shares of £0.01 each were issued to holders of the C Preference Shares in consideration for the redemption of those shares.

On 20 November 2007 a further 2,665,000 Ordinary Shares of £0.01 each were issued in exchange for 245 Ordinary Shares in Reinsurance Finance Management Limited held by the minority.

By an ordinary resolution passed on 20 November 2007 every two Ordinary Shares of £0.01 each in the capital of the Company were consolidated into one Ordinary Share of £0.02.

On 30 November 2007 a further 1,570,000 shares of £0.02 each were issued for cash.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 December 2007

On 7 December 2007 the authorised ordinary share capital of the Company was increased by the creation of an additional 19,462,500 Ordinary Shares of £0.02 each, ranking pari passu with the existing Ordinary Shares in the capital of the Company.

Under the Placing Agreement of 7 December 2007, a further 16,000,000 Ordinary Shares were issued on 20 December 2007 for consideration of £20,000,000.

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 Company's investment in R&Q Reinsurance Company 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.
- Preference C Shares, a cumulative cash dividend of 5 percent per annum and all distributions arising from the Company's investment.

The Preference A and Preference B Shares, and the Preference C Shares prior to their redemption in 2007, have been classified as equity on the basis that redemption dates are not prescribed in the Memorandum and Articles of Association and as such there is no contractual obligation to deliver cash.

25. Reconciliation of movement in capital and reserves
Attributable to equity holders of the parent

	Share capital £000	Shares to be issued £000	Share premium account £000	Capital redemption reserve £000	Retained profit £000	Total £000
2007						
At 1 January	-	-	1,022	134	50,059	51,215
Redemption of Preference D shares	-	-	-	116	(116)	-
Issue of shares	618	-	20,544	-	-	21,162
Bonus issue of shares	500	-	(250)	(250)	-	-
Expenses of share issue	-	-	(4,066)	-	-	(4,066)
Share based payments	-	151	-	-	-	151
Total recognised income and expense	-	-	-	-	7,634	7,634
Dividends	-	-	-	-	(1,400)	(1,400)
At 31 December	1,118	151	17,250	-	56,177	74,696
2006						
At 1 January	-	-	-	-	13,288	13,288
1 Preference A Share of £1 each	-	-	341	-	-	341
1 Preference B Share of £1 each	-	-	681	-	-	681
Redemption of Preference D shares	-	-	-	134	(134)	-
Total recognised income and expense	-	-	-	-	38,680	38,680
Dividends	-	-	-	-	(1,775)	(1,775)
At 31 December	-	-	1,022	134	50,059	51,215

25. Reconciliation of movement in capital and reserves
Attributable to equity holders of the parent (continued)

In determining the accounting policies to be adopted under IFRS the Directors have made two minor changes to the presentation of the 2006 comparative figures in the Placing document of 13 December 2007:-

1. Goodwill has been re-stated from the date of acquisition rather than from the date of conversion to IFRS. The effect on the 2006 profit is to increase the impairment of Intangible Assets by £492,000.

2. A surplus of £162,000 (net of deferred tax) in the defined benefit pension scheme recognised in the Placing document has been excluded in the Financial Statements. The effect on 2006 is to increase the net expense recognised in equity by £162,000.

In the aggregate, the balance of retained profits as at 31 December 2006 is lower by £401,000 when compared to the amount in the Placing document.

26. Employee benefit trust

	2007 £000	2006 £000
Balance as at 1 January	-	-
Payment to employee benefit trust	40	400
Allocated to employees	(40)	(400)
Balance as at 31 December	-	-

27. Employees and Directors
Employee benefit expense for the Group during the year

	2007 £000	2006 £000
Wages and salaries	8,386	9,542
Social security costs	1,106	1,436
Pension costs	956	1,371
Share based payment charge	748	-
	11,196	12,349

Pension costs are recognised in operating expenses in the income statement and include £859,000 (2006: £866,000) in respect payments to defined contribution schemes and £97,000 (2006: £505,000, of which £461,000 relates to past service costs) in respect of defined benefit schemes.

Average number of employees

	2007 Number	2006 Number
Group investment activities	12	12
Insurance services	154	198
	166	210

Remuneration of the Directors and key management

	2007 £000	2006 £000
Aggregate Director emoluments	488	433
Aggregate key management emoluments	923	1,093
Share based payments – key management	480	-
Director pension contributions	22	22
Key management pension contributions	60	55
	1,973	1,603
Highest paid Director		
Aggregate emoluments	243	242
	243	242

One Director has retirement benefits accruing under money purchase pension schemes (2006: One).

No Director has been granted any share options in respect of qualifying services under a long term incentive plan.

28. Equity-settled share option schemes

The Group has made awards of share options to certain of its employees. Options are exercisable at a price of 40p per share. These options vested upon the listing date, that being 20 December 2007. If the Options remain unexercised after a period of 10 years from the date of grant, the options expire.

Details of the share options outstanding during the year are as follows:-

	2007	
	Number of share options	**Weighted average exercise price**
Granted during the year - 40p Options	1,430,000	40p
Outstanding at 31 December 2007	1,430,000	40p
Exercisable at 31 December 2007	1,430,000	40p

All of the above options were awarded on 26 November 2007. The estimated fair value of the Options is 11p per underlying share.

This fair value was calculated using the Binomial option pricing method. The inputs into the model were as follows:-

	2007
	"40p Options"
Weighted average fair value of share price at date of grant	40p
Weighted average exercise price	40p
Expected volatility	30%
Option life	10 years
Risk-free rate	4.47%
Expected dividend yield	3.6%

28. Equity-settled share option schemes (continued)

Expected volatility was determined by calculating the historical volatility of the share prices of comparable quoted companies within the non-life insurance sector over a period of up to four years. Behavioural considerations, based on management's best estimate, were also taken into consideration in the calculation of the fair values of the options.

In addition 1,570,000 shares were issued to certain employees at nominal value of £0.02 each. The fair value at the date of issue of these shares was £0.40 each.

The Group recognised total expenses of £748,000 (2006: £nil), of which £597,000 has been charged to the share premium account, related to equity-settled share-based payment transactions during the year. No share options were granted in previous years.

The Directors intend to set up an Executive Performance Share Plan and a Deferred Bonus Share Plan. The Remuneration Committee will make awards under these plans and supervise their operation.

29. Pension commitments

The defined benefit scheme is fully funded, with assets held in separate trustee administered funds. The pension cost was assessed by an independent qualified Actuary. In his valuation the Actuary used the projected unit method 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.

The assets and liabilities in respect to the Group's defined benefit scheme on an IAS 19 valuation basis are as follows:-

	2007 £000	2006 £000
Total market value of scheme assets	25,136	23,830
Present value of scheme liabilities	(21,200)	(23,598)
Gross defined benefit asset	3,936	232

As required by IAS 19, the amount of any pension asset is restricted by reference to any cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits in the form of refunds from the scheme, or reduction in future contributions in the scheme. Therefore no pension asset is recognised in respect of 2007.

All actuarial losses are recognised in full in the statement of recognised income and expense in the period in which they occur.

The main financial assumptions used to calculate the scheme assets and liabilities are:-

	2007	2006
Inflation rate	3.4%	3.2%
Projected return on assets	6.8%	6.8%
Pension increase	3.4%	3.2%
Deferred pension increases	3.4%	3.2%
Discount rate	5.9%	5.1%
Mortality table used:-		
Pre-retirement mortality	PA92(c=2020)-4	PA92(c=2020)-4
Post-retirement mortality	PA92(c=2020)-2	PA92(c=2020)-2

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

The amounts recognised in the income statement in respect of the defined benefit plan are as follows:-

	2007 £000	2006 £000
Current service cost (operating expense)	(97)	(44)
Past service cost (operating expense)	-	(461)
Interest cost (other income)	(1,199)	(1,114)
Expected return on plan assets (other income)	1,581	1,608
	285	(11)

The expected return on assets is calculated using the assets, market conditions and long term expected rate of interest set at the start of the accounting period. This amount is then adjusted to take account of interest on contributions paid up or benefits paid out over the accounting period.

The amounts (charged)/credited directly to equity are:-

	2007 £000	2006 £000
Actual return less expected return on assets	561	225
Experience (losses)/gains arising on obligations	(279)	243
Changes in assumptions	2,975	378
Amount not recognised due to restriction on recovery (as required by IAS19)	(3,704)	(232)
Total actuarial (losses)/gains (charged)/credited in the statement of recognised income and expense	(447)	614

The cumulative actuarial gains recognised in the Statement of Recognised Income and Expenditure is £167,000.

Movements in the present value of the defined benefit obligation are as follows:-

	2007 £000	2006 £000
Surplus/(deficit) in the scheme at 1 January	232	(713)
Current service costs	(97)	(44)
Past service costs	-	(461)
Contributions by employer	162	110
Actuarial gain	3,257	846
Other financial income	382	494
Surplus in the scheme at 31 December	3,936	232

The major categories of assets as a percentage of the total plan assets are as follows:-

	2007	2006
Equity securities	50.4%	59.9%
Debt securities	36.4%	27.9%
Property	5.9%	6.8%
Cash	7.3%	5.4%

30. Related party transactions

- A freehold property held for the Group's occupation by an insurance company subsidiary was valued at £500,000 in 2005. 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. At the same time as the completion of the sale of the property, Mr and Mrs Randall entered into an agreement for the sale and leaseback of the property pursuant to which Ludgate Insurance Company Limited pays Mr and Mrs Randall £25,000 per annum.
- During 2007, dividends amounting to £911,400 were paid to K E Randall, a Director
- During 2007, dividends amounting to £350,000 were paid to A K Quilter, a Director.
- On 20 November 2007, 2,665,000 Ordinary 1p shares shares were issued to A K Quilter, in exchange for 245 shares in Reinsurance Finance Management Limited, with a value of £533,000.
- During the year the Group paid consultancy fees to M G Smith and K P McNamara of £16,125 and £14,875 respectively for work prior to their appointment as non-executive Directors.
- Jo Welman, a Director, is also a Director of EPIC Investment Partners Limited. EPIC and its subsidiaries provide investment management services to various group subsidiaries. In total, fees paid to EPIC by the Group during 2007 amounted to £86,000 (2006: £15,000).

31. Operating lease commitments

The total future minimum lease payments payable over the remaining terms of non-cancellable operating leases are:-

	2007 £000	2006 £000
Land and buildings		
Expiring within one year	-	-
Expiring within two and five years	2,422	2,510
Expiring after five years	-	-
Other		
Expiring within one year	-	-
Expiring within two and five years	100	108
Expiring after five years	-	-

The Group leases a number of premises under operating leases. The Group has entered into a number of sublease arrangements with third parties. Sublease arrangements in force as at 31 December 2007 are due to expire within two to five years of the balance sheet date.

It is anticipated that sublease income of £1.9m will be earned over the lease term.

32. Contingent liabilities

As a condition of the acquisition of R&Q Reinsurance Company (UK) Ltd, 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 Institute of London Underwriters for certain policies 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 certain policies written by Chevanstell Ltd. The aggregate limit of this counter-indemnity is £9 million.

The Directors believe that it is very unlikely that either of these counter-indemnities will ever be called upon.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2007

33. Business Combinations

On 20 November 2007 the Group acquired the remaining 24.5% interest in RFML, then held by the minority, in exchange for 2,665,000 Ordinary 1p shares issued by the Company.

	£
Fair value of net assets acquired	59,423
Cash consideration	-
Fair value of shares issued	533,000
Total consideration	533,000
Goodwill on acquisition	473,577

34. Inter-company guarantee and debenture

The Company has entered into a guarantee agreement and debenture arrangement with its Bankers, along with its subsidiaries, Randall & Quilter Consultants Limited and Cavell Management Services Limited, in respect of the Group overdraft and term loan facilities. The total liability to the bank of these companies at 31 December 2007 is £nil (2006: £11,959,487).

Explanation of Transition to IFRS

The Group's restated financial statements are prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2006 and the preparation of an opening IFRS balance sheet at 1 January 2006 (the Group's date of transition).

In preparing its opening IFRS balance sheet and financial statements for the year ended 31 December 2006 the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP.

An explanation of how the transition from previous GAAP to IFRS has affected the Group's balance sheet, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Consolidated income statement for the year ended 31 December 2006

	Note	Previous GAAP £000	Re-classification £000	Accounting policy changes £000	IFRS £000
Gross premiums written		290	-	-	290
Reinsurers' share of gross premiums		(46)	-	-	(46)
Earned premium net of reinsurance		244	-	-	244
Net investment income		7,153	-	-	7,153
Other income		15,395	-	175	15,570
		22,548	-	175	22,723
Total income		22,792	-	175	22,967
Gross claims paid		(25,583)	-	-	(25,583)
Reinsurers' share of gross claims paid		11,079	2,852	-	13,931
Claims paid, net of reinsurance		(14,504)	2,852	-	(11,652)
Movement in gross technical provision		29,063	-	-	29,063
Movement in reinsurers' share of technical provisions		(10,583)	(2,852)	-	(13,435)
Net change in provision for claims		18,480	(2,852)	-	15,628
Net insurance claims incurred		3,976	-	-	3,976
Operating expenses		(22,641)	892	-	(21,749)
Result of operating activities before negative goodwill and impairment of intangible assets		4,127	892	175	5,194
Negative goodwill		35,958	-	(28)	35,930
Impairment of intangible assets		(1,006)	(892)	82	(1,816)
Result of operating activities		39,079	-	229	39,308
Finance costs		(748)	-	-	(748)
Profit on ordinary activities before income taxes		38,331	-	229	38,560
Income tax credit (expense)		377	-	-	377
Profit for the period		38,708	-	229	38,937
Attributable to equity holders of the parent					
Attributable to Ordinary shareholders		37,355	-	229	37,584
Attributable to Preference C shareholders		1,306	-	-	1,306
		38,661	-	229	38,890
Minority interests		47	-	-	47
		38,708	-	229	38,937
Earnings per Ordinary share for the profit attributable to the Ordinary shareholders of the Company:					
Basic and diluted		149.4p			150.3p

Explanation of Transition to IFRS (continued)

Consolidated balance sheet as at 1 January 2006

	Note	Previous GAAP £000	Re-classification £000	Accounting policy changes £000	IFRS £000
Assets					
Intangible assets		958	951	617	2,526
Property, plant and equipment		1,324	(951)	-	373
Investment properties		2,332	-	-	2,332
Financial assets					
- Investments		13,532	-	-	13,532
- Deposits with ceding undertakings		-	-	-	-
Reinsurers' share of insurance liabilities		97,280	-	-	97,280
Corporation tax		-	-	-	-
Deferred tax asset		58	214	-	272
Insurance and other receivables		14,575	-	(304)	14,271
Cash and cash equivalents		6,504	-	-	6,504
Total assets		136,563	214	313	137,090
Liabilities					
Insurance contract provisions		105,173	-	-	105,173
Pension benefit obligations		499	214	-	713
Financial liabilities					
- Promissory note		-	-	-	-
- Preference shares		250	-	-	250
- Onerous lease provision		-	197	-	197
- Amounts owed to credit institutions		555	-	-	555
- Deposits received from reinsurers		-	-	-	-
Deferred tax liabilities		6,057	(197)	-	5,860
Trade and other payables, including insurance payables		10,464	-	-	10,464
Current tax liabilities		30	-	-	30
Total liabilities		123,028	214	-	123,242
Equity					
Share capital		-	-	-	-
Share premium account		-	-	-	-
Capital redemption reserve		-	-	-	-
Retained earnings		12,975	-	313	13,288
Attributable to equity holders of the parent		12,975	-	313	13,288
Minority interests in subsidiary undertakings		560	-	-	560
Total equity		13,535	-	313	13,848
Total liabilities and equity		136,563	214	313	137,090

Explanation of Transition to IFRS (continued)

Consolidated balance sheet as at 31 December 2006

	Note	Previous GAAP £000	Re-classification £000	Accounting policy changes £000	IFRS £000
Assets					
Intangible assets		13,375	16	(1,644)	11,747
Property, plant and equipment		308	(16)	-	292
Investment properties		996	-	-	996
Financial assets					
- Investments		235,729	-	-	235,729
- Deposits with ceding undertakings		4,623	-	-	4,623
Reinsurers' share of insurance liabilities		275,555	-	11,118	286,673
Corporation tax		-	-	-	-
Deferred tax asset		3,082	-	-	3,082
Pension scheme surplus		162	(162)	-	-
Insurance and other receivables		33,392	70	(129)	33,333
Cash and cash equivalents		91,940	-	-	91,940
Total assets		659,162	(92)	9,345	668,415
Liabilities					
Insurance contract provisions		534,701	-	8,803	543,504
Financial liabilities					
- Promissory note		2,564	-	-	2,564
- Preference shares		116	-	-	116
- Amounts owed to credit institutions		11,959	-	-	11,959
- Deposits received from reinsurers		6,857	-	-	6.857
Deferred tax liabilities		4,818	70	-	4,888
Trade and other payables, including insurance payables		47,310	-	-	47,310
Total liabilities		608,325	70	8,803	617,198
Equity					
Share capital		-	-	-	-
Share premium account		1,022	-	-	1,022
Capital redemption reserve		134	-	-	134
Retained earnings		49,679	(162)	542	50,059
Attributable to equity holders of the parent		50,835	(162)	542	51,215
Minority interests in subsidiary undertakings		2	-	-	2
Total equity		50,837	(162)	542	51,217
Total liabilities and equity		659,162	(92)	9,345	668,415

Explanation of Transition to IFRS (continued)

1. The effect of the IFRS adjustments on profit for the financial year is as follows:-

	2006 £000
Profit as reported under UK GAAP	38,708
Adjustments for:	
Goodwill	54
Insurance and other receivables	175
Total adjustments to profit	229
Profit as reported under IFRS	38,937

The Group has applied IFRS 3, Business Combinations to all acquisitions. As a result goodwill is no longer amortised, but is tested annually for impairment. Goodwill in respect of acquisitions since 1 January 2006 has been recalculated based on assessments of the fair value of assets and liabilities acquired.

The Goodwill adjustment above of £54,000 comprises a £570,000 credit resulting from the reversal of previously expensed amortisation charges, less a £488,000 charge in respect of additional impairment of goodwill during the year and a £28,000 charge, resulting from the recalculation of fair values of assets acquired, in negative goodwill credited to the income statement during the year.

The adjustment for Insurance and other receivables of £175,000 results from changes to the revenue recognition policy in respect of overseas subsidiaries.

2. The effect of the IFRS adjustments on equity is as follows:-

	1 January 2006 £000	31 December 2006 £000
Total equity as reported under UK GAAP	13,535	50,837
Adjustments for:		
Goodwill	617	(1,644)
Reinsurers' share of insurance liabilities	-	11,118
Insurance and other receivables	(304)	(129)
Insurance contract provisions	-	(8,803)
Pension scheme adjustment	-	(162)
Total adjustments to equity	313	380
Total equity as reported under IFRS	13,848	51,217

1 January 2006

The Goodwill adjustment of £617,000 relates to the reinstatement of previously amortised goodwill.

The adjustment for Insurance and other receivables of £(304,000) results from revisions to the revenue recognition policy in respect of overseas subsidiaries.

Explanation of Transition to IFRS (continued)

31 December 2006

Explanation of transition to IFRS (continued)

The Goodwill adjustment of £(1,644,000) relates to £700,000 resulting from the reinstatement of previously amortised goodwill less £2,344,000 resulting from the reassessment of fair values of assets acquired during the year.

The adjustments for Reinsurers' share of insurance liabilities, £11,118,000, and Insurance contract provisions, £(8,803,000), result from the reassessment of fair values of assets acquired during the year.

The adjustment for Insurance and other receivables of £(129,000) results from revisions to the revenue recognition policy in respect of overseas subsidiaries.

The adjustment of (£162,000) relates to the removal of the surplus of the defined benefit scheme.

Basis of preparation

IFRS 1: First-time Adoption of International Financial Reporting Standards

IFRS 1, First-time Adoption of International Financial Reporting Standards sets out the rules and procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its IFRS accounting policies and, in general, apply these retrospectively. On first time adoption IFRS 1, First-time Adoption of International Financial Reporting Standards allows a number of exemptions to this retrospective application principle.

IFRS 3: Business combinations

The Group has applied IFRS 3, Business Combinations to all acquisitions. As a result goodwill is no longer amortised, but is tested annually for impairment. Goodwill in respect of acquisitions since 1 January 2006 has been recalculated based on assessments of the fair value of assets and liabilities acquired.

IAS 19: Employee benefits

In accordance with the amendment to IAS 19, Employee Benefits issued in December 2004 the Group has elected to recognise all cumulative actuarial gains and losses in relation to its defined benefit pension scheme through the statement of recognised income and expense, subject to any restrictions relating to the recognition of pension surpluses.

Comparatives

The Group has not taken advantage of the exemption within IFRS 1, First-time Adoption of International Financial Reporting Standards that allows comparative information presented within the first year of adoption of IFRS not to comply with IAS 32, Financial Instruments: Disclosure and Presentation, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 4, Insurance Contracts.

Estimates

The IFRS financial statements contained within this note are based on UK GAAP financial statements approved by the Board on 9 May 2007 in respect of the annual report 2006. In accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards there have been no adjustments to estimates made at the time of the preparation of the UK GAAP financial statements, except to the extent of fair value changes in the acquired insurance companies.

Presentation of financial information

The format of the primary financial statements has been amended in accordance with IAS 1, Presentation of Financial Statements from those previously prepared under UK GAAP in accordance with Section 255A of, and Schedule 9A to, the Companies Act 1985. This format and presentation may change in response industry consensus and further guidance.

Reclassification

There have been a number of reclassification adjustments. These have had no effect on the profit, earnings per share or net assets of the Group.

Parent Company Balance Sheet
As at 31 December 2007

	Note	2007 £000	2006 £000
Fixed assets			
Intangible assets	3	1	1
Investments	4	23,628	20,432
		23,629	20,433
Current assets			
Debtors	5	502	459
Cash at bank and in hand		3,665	406
		4,167	865
Creditors: amounts falling due within one year	6	(4,591)	(8,909)
Net current liabilities		(424)	(8,044)
Total assets less current liabilities		23,205	12,389
Creditors: amounts falling due after more than one year	6	(4,400)	(10,541)
		18,805	1,848
Capital and reserves			
Called up share capital	7	1,118	-
Share premium account	8	17,250	1,022
Shares to be issued	8	151	-
Capital redemption reserve	8	-	134
Profit and loss account	8	286	692
Equity shareholders' funds		18,805	1,848

The Financial Statements were approved by the Board of Directors on 14 May 2008 and were signed on its behalf by:-

K E Randall

A K Quilter

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2007

1. Accounting policies

a. Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost accounting rules. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985 ("the Act"). The balance sheet of the Company has been prepared in accordance with section 226A of, and Schedule 4 to, the Act.

b. Cash flow statements

Under Financial Reporting Standard Number 1, Cash Flow Statements, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated Financial Statements.

c. Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets on a straight-line basis over their estimated useful economic lives as follows:-

Leasehold improvements Term of lease

d. 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 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.

e. Investments

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

f. Investment income

Interest income comprises interest, dividends, realised and unrealised gains and losses on financial assets held at fair value through profit or loss.

The fair value of unrealised gains and losses is calculated as the difference between the current fair value at the balance sheet date and fair value at date of acquisition adjusted for previously recognised unrealised gains and losses of financial assets disposed of in the period.

Realised gains and losses are calculated as the difference between the net sales proceeds and the fair value at the previous balance sheet date or date of acquisition if in the period.

Dividend income is recognised when the right to receive income is established.

g. Share based payments

The Company issues equity share based payments to certain of the Group's employees.

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense in the relevant subsidiary on a straight line basis over the vesting period and as an increase in the cost of investment in the company. The fair value is measured using the binomial option pricing method, taking into account the terms and conditions on which the awards were granted.

h. Share Premium Account

Incremental costs attributable to the issue of equity instrument are shown as a deduction from equity from the proceeds through the share premium account, net of tax.

i. Foreign exchange

Transactions in foreign currencies are initially recorded at the date of the transaction, monetary assets are retranslated at the balance sheet date, resulting exchange gain or loss is recognised in the profit and loss account.

j. Finance costs

Finance costs comprise interest payable to bank and redemption costs on preference shares. Finance costs are recognised in the profit and loss account. Arrangement fee in relation to bank facilities are deducted from the relevant loan and amortised over the period of the facility.

2. Staff costs and Directors' emoluments

No staff were employed by the Company (2006: none).

Full details of Directors' emoluments and their interests in the ordinary share capital of the Company are included Note 27 of the group financial statements.

3. Intangible assets

	Patents £000	Total £000
Cost and net book value		
At 1 January and 31 December 2007	1	1

Notes to the Parent Company Balance Sheet

For the year ended 31 December 2007 (continued)

4. Investments

	Investment in Subsidiary Undertakings £000	Loans to Subsidiary undertakings £000	Total £000
Cost			
At 1 January 2007	15,908	4,774	20,682
Revaluation	-	(117)	(117)
Additions in the year	3,243	70	3,313
Loans capitalised	1,450	(1,450)	-
At 31 December 2007	20,601	3,277	23,878
Provision for impairment			
At 1 January 2007	(250)	-	(250)
At 31 December 2007	(250)	-	(250)
Net book value			
At 31 December 2007	20,351	3,277	23,628
At 31 December 2006	15,658	4,774	20,432

The loans to Subsidiary Undertakings are:-

a. 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 2008.

b. A loan of $5,664,000 to Cavell America in relation to the acquisition by that Company of R&Q Reinsurance Company. It is non interest bearing and is repayable out of realisations received from R&Q Reinsurance Company. In the event of the non recovery of this loan Cavell America has agreed to surrender all or part of its holding in R&Q Reinsurance Company to the Company.

Notes to the Parent Company Balance Sheet
For the year ended 31 December 2007 (continued)

5. Debtors

	2007 £000	2006 £000
Amounts due from subsidiaries	98	31
Other debtors	130	3
Prepayments and accrued income	274	425
	502	459

6. Creditors

	2007 £000	2006 £000
Bank overdraft	-	1,001
Bank loans	-	10,876
Other creditors	1,135	-
Amounts due to subsidiaries	6,672	4,608
Preference D shares	-	116
Promissory note	-	2,564
Accruals and deferred income	1,184	285
	8,991	19,450
These borrowings are repayable as follows:		
In one year or less, or on demand	4,591	8,909
Between two and five years	4,400	9,521
Over five years	-	1,020
	8,991	19,450

Included in the amounts due to subsidiaries above is a loan of £5,000,000 from R&Q Reinsurance Company (UK) Limited. The loan carries an interest rate of 1% above LIBOR and is repayable in annual instalments of £600,000 commencing on 31 May 2008 with the balance to be repaid on, or before, 31 May 2012. Interest is payable annually in arrears.

Notes to the Parent Company Balance Sheet
For the year ended 31 December 2007 (continued)

7. Share capital

	2007 £000	2006 £000
Authorised		
63,000,000 Ordinary Shares of 2p each (2006: 100,000 Ordinary shares of 1p each)	1,260,000	1,000
1 Preference A Share of £1 each	1	1
1 Preference B Share of £1 each	1	1
120,000 Preference C Shares of £1 each	-	120,000
250,000 Preference D Shares of £1 each	-	250,000
	1,260,002	371,002
Allotted, called up and fully paid		
55,902,500 Ordinary Shares of 2p each (2006: 25,000 Ordinary shares of 1p each)	1,118,050	250
1 Preference A Share of £1 each	1	1
1 Preference B Share of £1 each	1	1
Preference D Shares of £1 each	-	116,000
	1,118,052	116,252
Allotted, nil called		
Preference C Shares of £1 each	-	-
	-	-
Included in:		
Equity		
55,902,500 Ordinary Shares of 2p each (2006: 25,000 Ordinary shares of 1p each)	1,118,050	250
1 Preference A Share of £1 each	1	1
1 Preference B Share of £1 each	1	1
Preference C Shares of £1 each	-	-
	1,118,052	252
Liabilities		
Preference D Shares of £1 each	-	116,000

On 29 June 2007 116,000 of the Preference D shares were redeemed by the Company at £5 per share.

On 31 October 2007 the authorised ordinary share capital of the Company was increased by the creation of an additional 49,975,000 Ordinary Shares of £0.01 each ranking pari passu with the existing Ordinary Shares in the capital of the Company.

On 31 October 2007 an ordinary resolution was passed approving the capitalisation of £250,000 of the amount standing to the credit of the Company's capital redemption reserve and £249,750 of the amount standing to the credit of its share premium account. It was agreed that these sums be applied in paying up in full at par 49,975,000 new Ordinary Shares of £0.01 each in the capital of the Company, ranking pari passu in all respects with the existing Ordinary Shares and the Directors be authorised to appropriate, allot and distribute the same, credited as fully paid, to and amongst the persons registered as the holders of the existing Ordinary Shares at the close of business on 31 October 2007 in the proportion of 1,999 new Ordinary Shares for every 1 Ordinary Share held by such persons respectively.

Notes to the Parent Company Balance Sheet
For the year ended 31 December 2007 (continued)

7. Share capital (continued)

On 20 November 2007 the Company redeemed all 120,000 of the Preference C Shares.

On 20 November 2007 the 120,000 authorised Preference C Shares of £1 each and the 250,000 authorised Preference D Shares of £1 each were converted into 37,000,000 Ordinary Shares of £0.01 each, ranking pari passu with the existing Ordinary Shares in the capital of the Company.

On 20 November 2007 a further 24,665,000 Ordinary Shares of £0.01 each were issued to holders of the C Preference Shares in consideration for the redemption of those shares.

On 20 November 2007 a further 2,665,000 Ordinary Shares of £0.01 each were issued in exchange for 245 Ordinary Shares in Reinsurance Finance Management Limited held by the minority.

By an ordinary resolution passed on 20 November 2007 every two Ordinary Shares of £0.01 each in the capital of the Company were consolidated into one Ordinary Share of £0.02.

On 30 November 2007 a further 1,570,000 shares of £0.02 each were issued for cash.

On 7 December 2007 the authorised ordinary share capital of the Company was increased by the creation of an additional 19,462,500 Ordinary Shares of £0.02 each, ranking pari passu with the existing Ordinary Shares in the capital of the Company.

Under the Placing Agreement of 7 December 2007, a further 16,000,000 Ordinary Shares were issued on 20 December 2007 for consideration of £20,000,000.

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 Company's investment in R&Q Reinsurance Company 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.
- Preference C Shares, a cumulative cash dividend of 5 percent per annum and all distributions arising from the Company's investment in Cavell Management Services Ltd. These shares were redeemed during 2007.

The Preference A and Preference B Shares, and the Preference C Shares prior to their redemption in 2007, have been classified as equity on the basis that redemption dates are not prescribed in the Memorandum and Articles of Association and as such there is no contractual obligation to deliver cash.

Notes to the Parent Company Balance Sheet
For the year ended 31 December 2007 (continued)

8. Reserves

	Share capital £000	Share premium account £000	Shares to be issued £000	Capital redemption reserve £000	Retained profit £000	Total £000
2007						
At 1 January	-	1,022	-	134	692	1,848
Redemption of Preference D shares	-	-	-	116	(116)	-
Issue of shares	618	20,544	-	-	-	21,162
Bonus issue of shares	500	(250)	-	(250)	-	-
Expenses of share issue	-	(4,066)	-	-	-	(4,066)
Share based payments	-	-	151	-	-	151
Total recognised income and expense	-	-	-	-	1,110	1,110
Equity dividends	-	-	-	-	(1,400)	(1,400)
At 31 December	1,118	17,250	151	-	286	18,805

9. Equity settled share option schemes

Details of the equity settled share option schemes are included in Note 28 of the group financial statements.

10. Related party transactions

Details of the related party transactions are included in Note 30 of the group financial statements.

11. Post balance sheet events

Following approval by the FSA, Chevanstell, a subsidiary, released £11,000,000 of surplus capital to the Company on 28 April 2008.

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