



Randall & Quilter Investment Holdings plc

Placing and Admission to AIM



Noble & Company Limited
Nominated Adviser and Joint Broker



Numis Securities Limited
Joint Broker and Bookrunner

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or as to the action you should take, you should immediately consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. An investment in Randall & Quilter Investment Holdings plc involves a high degree of risk and particular attention is drawn to the risk factors set out in Part IV of this document. The whole text of this document should be read.

Application has been made for the whole of the issued and to be issued ordinary share capital of Randall & Quilter Investment Holdings plc to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a Nominated Adviser. The Nominated Adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

This document, which comprises an AIM admission document drawn up in accordance with the rules of AIM, a market operated by London Stock Exchange, has been issued in connection with the proposed admission to trading of the whole or the issued and to be issued ordinary share capital of Randall & Quilter Investment Holdings plc on AIM. This document does not constitute a prospectus for the purposes of the Prospectus Rules and a copy of it has not been, and will not be, approved by or filed with the Financial Services Authority.

The Directors of Randall & Quilter Investment Holdings plc, whose names and details are set out on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts, and does not omit anything likely to affect the import of such information. All of the Directors accept responsibility accordingly.

RANDALL & QUILTER INVESTMENT HOLDINGS PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 3671097)

Placing of 16,000,000 New Ordinary Shares and 8,800,000 Existing Ordinary Shares of 2p each
at 125p per share
and
Admission to trading on AIM



NOBLE

Nominated Adviser and Joint Broker



Joint Broker and Bookrunner

ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION

| <i>Authorised</i> | | <i>Issued</i> | |
|-------------------|---------------|---------------|---------------|
| <i>Number</i> | <i>Amount</i> | <i>Number</i> | <i>Amount</i> |
| 63,000,000 | £1,260,000.00 | 55,902,500 | £1,118,050.00 |

The Placing Shares now being placed will, following allotment, rank *pari passu* in all respects with the Existing Ordinary Shares on Admission including the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares after Admission.

Noble & Company Limited, which is authorised and regulated in the UK by the Financial Services Authority and is a member of the London Stock Exchange, is Randall & Quilter's Nominated Adviser and joint broker for the purposes of the AIM Rules and is acting exclusively for the Company in connection with the Placing and Admission. Noble & Company Limited will not be responsible to anyone other than the Company for providing the protections afforded to customers of Noble & Company Limited or for advising any other person on the Placing or Admission and other arrangements described in this document. Its responsibilities as Randall & Quilter's Nominated Adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person who may rely on any part of this document.

Numis Securities Limited, which is authorised and regulated in the UK by the Financial Services Authority and is a member of the London Stock Exchange, is Randall & Quilter's joint broker and is acting exclusively for the Company in connection with the Placing and Admission. Numis Securities Limited will not be responsible to anyone other than the Company for providing the protections afforded to customers of Numis Securities Limited or for advising any other person on the Placing or Admission and other arrangements described in this document.

This document does not constitute or form part of an offer or invitation to purchase or subscribe for, or the solicitation of an offer to purchase or subscribe for, Ordinary Shares in any jurisdiction in which such offer, invitation or solicitation is unlawful. The Ordinary Shares have not been nor will they be registered under the United States Securities Act of 1933, as amended ("Securities Act"), or under the securities laws of any state of the United States or under the applicable securities laws of Australia, the Republic of South Africa, the Republic of Ireland, Japan or Canada. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered, sold, transferred, taken up or delivered, directly or indirectly, in the United States, Australia, the Republic of South Africa, the Republic of Ireland, Japan or Canada or for the benefit of any US person (as defined in Regulation S under the Securities Act). The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

Noble & Company Limited has not authorised the contents of any part of this document and (without limiting the statutory rights of any person to whom this document is issued) no liability whatsoever is accepted by Noble & Company Limited for the accuracy of any information or opinions contained in this document nor for the omission of any material information from this document and no representation or warranty, express or implied, is made by Noble & Company Limited as to any of the contents of this document, for which Randall & Quilter and its Directors are solely responsible. The information contained in this document has been prepared solely for the purposes of Admission and is not intended to inform or be relied upon by any subsequent purchaser of the Ordinary Shares and accordingly no duty of care is accepted in relation to them.

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It is expected that dealings in the Ordinary Shares on AIM will commence on 20 December 2007. Copies of this document will be available during normal business hours on any day (except Saturdays, Sundays and public holidays) free of charge for the period from the date of this document until one month after Admission from the registered office of the Group, 9-13 Fenchurch Buildings, London EC3M 5HR, the offices of Noble & Company Limited, 120 Old Broad Street, London EC2N 1AR, and the offices of the Registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

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DIRECTORS, SECRETARY AND ADVISERS

| | |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Directors | Kenneth Edward Randall , <i>Chairman and Chief Executive Officer</i> Alan Kevin Quilter , <i>Group Finance Director</i> Kevin Paul McNamara , <i>Non-Executive Director</i> Michael Gordon Smith , <i>Non-Executive Director</i> Jo Mark Pole Welman , <i>Non-Executive Director</i> |
| Registered office and business address of the Directors | 9-13 Fenchurch Buildings London EC3M 5HR |
| Secretary | Peter McCann |
| Nominated Adviser and Joint Broker | Noble & Company Limited 120 Old Broad Street London EC2N 1AR |
| Joint Broker and Bookrunner | Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT |
| Auditors and Reporting Accountants | CLB Littlejohn Frazer 1 Park Place Canary Wharf London E14 4HJ |
| Solicitors to the Company | Berwin Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA |
| Solicitors to Noble & Company Limited and Numis Securities Limited | Travers Smith 10 Snow Hill London EC1A 2AL |
| Principal Bankers | National Westminster Bank plc City of London Office PO BOX 12258 1 Princes Street London EC2R 8PA |
| Registrars | Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH |

PLACING STATISTICS

| | |
|---------------------------------------------------------------------------------|---------------|
| Placing Price per Placing Share | 125p |
| Number of New Ordinary Shares | 16,000,000 |
| Number of Vendor Placing Shares | 8,800,000 |
| Total number of Placing Shares | 24,800,000 |
| Total number of Ordinary Shares in issue on Admission | 55,902,500 |
| Market capitalisation of the Company following the Placing at the Placing Price | £69.9 million |
| Estimated gross proceeds of the Placing | £31.0 million |
| Estimated net proceeds of the Placing received by the Company | £17.1 million |
| ISIN | GB00B29H4M52 |

EXPECTED TIMETABLE OF EVENTS

| | |
|---------------------------------------------------------|------------------|
| Publication of the Admission Document | 13 December 2007 |
| Admission effective and commencement of dealings on AIM | 20 December 2007 |
| CREST accounts credited | 20 December 2007 |
| Despatch of definitive share certificates by | 31 December 2007 |

PART I

KEY INFORMATION

The following summary information does not purport to be complete and is derived from and qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this document.

IN PARTICULAR YOUR ATTENTION IS DRAWN TO THE RISK FACTORS SET OUT IN PART IV OF THIS DOCUMENT.

Introduction

Randall & Quilter operates in the non-life run-off insurance sector. It manages, acquires and realises the surplus assets of solvent non-life insurance companies in run off and acquires and realises reinsurance receivables.

Current business lines

The Group operates through three divisions:

- The Insurance Services Division provides services to both insurance companies owned by the Group and to third parties, including syndicates at Lloyd's, and has operations in the UK and US.
- The Insurance Company Division acquires solvent insurance companies in run-off, typically at a discount to their 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 and achieves complete exits through schemes of arrangements, transfer or sale. The Group has acquired eight such companies to date.
- The Liquidity Management Division acquires reinsurance receivables on both a recourse and non recourse basis and seeks to realise them for cash.

Experience of management

The Group is headed by Ken Randall, Chairman and Chief Executive Officer, and Alan Quilter, Group Finance Director. Both began working in the insurance industry at Lloyd's, where Ken Randall was head of regulation. In 1992 they established Randall & Quilter and developed a substantial insurance services operation (Eastgate) which was sold to Capita plc in 2000. They have carried out 14 acquisitions of run-off insurance companies on their own account and on behalf of a third party venture capital backed fund, Dukes Place, of which five acquisitions have been realised in full. They are supported by a highly experienced team of approximately 170 employees.

Non-life run-off sector

The global non-life run-off market is estimated to have over \$400 billion in liabilities. The market is driven by the need for insurance groups to realise surplus capital in non core operations and reduce the risks and diversion of management time inherent in managing run-offs. Such run-offs arise as groups change strategies or merge, and also from the discontinuance of loss making operations.

Competitive strengths

The Directors consider the Group's primary competitive strength as being the accumulated skills and experience of its management team and employees in managing run-offs, acquiring companies in run-off and releasing surplus assets from run-off assets as appropriate. This is reflected in the Group's brand and reputation in its markets.

Growth strategy

The Group intends to develop primarily through the acquisition of further insurance companies in the acquisition price range of up to \$40 million, thereby enlarging both its Insurance Company Division and its Insurance Services Division. Additionally, it intends to continue to pursue third party contracts for its Insurance Services Division and to expand the type and scale of assets acquired by the Liquidity Management Division as opportunities present themselves.

Current trading and prospects

In the nine months to 30 September 2007, the Group achieved income of £19.4 million, operating profit before goodwill and impairment of £5.1 million and as at 30 September 2007 had net assets of £55.0 million. For the same period, the Insurance Services Division had income of £14.1 million, of which approximately half came from third parties and the remainder from Group Insurance Companies, and EBITDA of £3.6 million. The combined net assets of the Group Insurance Companies as at 30 September 2007 were £75 million.

Current trading and prospects are in line with expectations. The Group has a pipeline of new business opportunities for all three of its divisions which it continues to investigate.

Reasons for the Placing and Admission

The Placing is expected to raise £17.1 million net of expenses for the Company. The proceeds will be utilised initially to reduce bank debt and to develop the Group, by acquisition of further non-life insurance companies in run-off. In addition, the Group intends to expand into new business areas, including the Liquidity Management Division, and is seeking to establish a subsidiary reinsurance company in Bermuda to enable more efficient use of capital across the Group.

Furthermore, the Directors believe that Admission will enable the Group to use its equity to fund further acquisitions, enhance its credibility and profile in the market, and provide incentives to current and prospective employees.

Dividend policy

The Directors intend to adopt a progressive dividend policy taking into account the Group's underlying growth in earnings and cash flows, as well as its capital requirements. In the absence of unforeseen circumstances and subject to there being sufficient distributable reserves, the Directors intend to pay a dividend of 4.8 pence per share in respect of 2008.

Surplus assets remitted to the Group from the Insurance Company Division (after distributions, if any, to Preference Shareholders) will either be distributed to Shareholders or used to fund further business development opportunities if these exist at the time of realisation.

The City Code on Takeovers and Mergers

On Admission, the Code will apply to the Company. Further details of the application of the Code to the Company are set out in paragraph 1.19 of Part II on pages 22 and 23 of this document.

PART II

INFORMATION ON RANDALL & QUILTER INVESTMENT HOLDINGS PLC

1.1 Introduction

Randall & Quilter is the holding company for a group of companies which operate in the non-life run-off insurance sector.

The Group comprises three divisions:

- Insurance Services Division – This manages insurance portfolios in run-off for both Group owned insurance companies and third party clients including syndicates at Lloyd’s.
- Insurance Company Division – This acquires solvent insurance companies in run-off, typically at a discount to their 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. As at 30 September 2007, this division had eight companies in its portfolio.
- Liquidity Management Division – This acquires reinsurance receivables on a recourse or non-recourse basis. To date, the Liquidity Management Division has acquired assets with a total capital cost of \$2 million.

The Group provides a comprehensive range of services to insurers in run-off. It employs a number of highly experienced individuals in the run-off market and in total has approximately 140 staff in its offices in the UK (London, Norwich and Maidstone) and approximately 30 in the US (Boston, Rhode Island and Philadelphia).

The Group has recently been selected as ‘Run-off Management Service Provider of the Year 2007’ by the Association of Run-off Companies (‘ARC’).

1.2 Group operations

1.2.1 *The Insurance Services Division*

The Insurance Services Division provides services for insurance companies both owned by the Group (which provided approximately half of revenues in the nine months to 30 September 2007) and also third party insurance entities in run-off. Contracts with Group Insurance Companies and third party companies providing insurance services use a mix of cost based and fee based pricing.

The Insurance Services Division’s income is non-cyclical, stable and reliable and underpins the Group’s ability to generate cash flows which are expected to support the Group’s ability to pay regular dividends. In addition, these cash flows will support the Group’s borrowings and can be used to acquire further assets in the Insurance Company Division and the Liquidity Management Division. Paragraph 1.11 sets out information on the Group’s dividend policy.

Operating under the Cavell brand, the Insurance Services Division provides its clients with exit solutions appropriate to their requirements and the nature of the business in question.

The division’s largest single third party contract is to manage the run-off of Goshawk Syndicate 102 at Lloyd’s. This is a “long tail” portfolio with estimated gross liabilities of approximately \$400 million.

Further information on the differing types of portfolios found in insurance companies in run-off and their characteristics is included in section 1.3.1 below.

The Group currently has approximately an estimated \$2 billion of gross claims reserves under management. Since 1992, the Insurance Services Division has managed in excess of 100 companies or Lloyd's syndicates in run-off.

The Directors believe the Group benefits from well developed relationships with regulators across all jurisdictions in which it operates.

The division benefits from new business arising through the acquisition of insurance companies. In addition, the division continues to tender for and win third party service contracts in the run-off market.

1.2.2 *The Insurance Company Division*

The Insurance Company Division acquires insurance companies in run-off with liabilities within the non-life commercial insurance and reinsurance markets. It avoids companies with any material personal lines business, although occasionally small amounts of such business exist within the portfolios acquired.

Group Insurance Companies are typically acquired at a discount to net asset value. The degree of discount reflects an approximation of the net present value of the minimum release for the Group by the end of the run-off, where applicable, taking into account any efficiencies the Group may be able to bring to the process. Such negotiated discounts can vary significantly depending on the Group's assessment of the target and its view on the effectiveness of the existing run-off plans and the accuracy of the vendor's assessment of the liabilities. The Group typically aims to enhance net asset value further by applying tailored run-off plans following acquisition, so as to generate additional value over and above the discount secured on purchase. These plans need to take account of any constraints imposed by third party reinsurers, especially where reinsurance has been purchased in support of an acquisition.

The acquisitions provide the Insurance Services Division with new contracts. These contracts are negotiated at arms' length and the costs are charged to the insurance company in run-off.

The Group has developed substantial in-house acquisition experience to:

- source attractive run-off portfolios;
- perform detailed analysis of portfolio risk exposures;
- assess portfolios against the Group's strategy and risk appetite;
- build robust valuation models to target adequate internal rates of return;
- integrate and manage assets (including cash, investments and receivables); and
- manage liabilities and extract surplus cash.

The Group has focused on acquisitions of companies with an acquisition price of up to \$40 million, being sold as non-core but solvent run-offs by solvent parent groups. The Directors believe that for such groups, managing run-off in-house is often a distraction and can give rise to inefficient utilisation of capital in supporting non-core activities, providing strong motivations for disposal.

Success in the acquisition of run-off portfolios requires strong relationships with regulatory authorities who approve ownership transfers and a reputation, amongst both cedants and vendors, for professional management of liabilities. The Directors believe that the Group is held in good standing by regulators. As at 30 September 2007, all of the Group Insurance Companies had capital substantially in excess of their respective minimum regulatory requirements. The Group's policy is to operate each of the Group Insurance Companies on a standalone basis.

The Group has acquired eight solvent insurance companies in run-off. The table below sets out key information relating to these acquisitions and demonstrates that the Group has acquired the Group Insurance Companies at a significant discount to NAV.

| <i>Group Owned Company</i> | <i>Date of acquisition</i> | <i>Consideration \$m</i> | <i>NAV at acquisition \$m</i> | <i>Discount to NAV \$m</i> | <i>Discount %</i> |
|----------------------------|----------------------------|--------------------------|-------------------------------|----------------------------|-------------------|
| Ludgate Insurance | 04/08/1992 | 0.3 | 4.2 | 3.9 | 93 |
| La Metropole | 29/11/2000 | 0.2 | 1.6 | 1.4 | 88 |
| Transport | 30/11/2004 | 0.2 | 17.5 | 17.3 | 99 |
| R&Q Re (US) | 03/07/2006 | 5.7 ⁽²⁾ | 27.6 ⁽¹⁾ | 21.9 | 79 |
| R&Q Re (UK) | 03/07/2006 | 4.0 ⁽²⁾ | 22.5 ⁽¹⁾ | 18.5 | 82 |
| R&Q Belgium | 03/07/2006 | Included in R&Q Re (US) | | | n/a |
| Chevanstell | 10/11/2006 | 24.9 | 41.9 | 17.0 | 41 |
| Arran | 21/12/2006 | 4.3 | 7.9 | 3.6 | 45 |
| Total | | <u>39.6</u> | <u>123.2</u> | <u>83.6</u> | |

Notes:

1. Discounted reserves
2. Consideration includes the issue of cumulative redeemable preference shares. See paragraph 1.15 of this Part II for further information.

In addition, the Group previously advised Dukes Place, a private equity backed fund, on the acquisition of six insurance companies between 1998 and 2004. The combined purchase price for these companies exceeded \$110 million.

To date, finance for acquisitions has been provided through a combination of the Group's internal resources and debt. In certain instances, reinsurance has been used to strengthen the solvency capital of the business acquired. Consideration payable to vendors has been a mix of cash on completion and deferred consideration.

The Group has developed an advanced skill base to enable it to enhance the value of managed portfolios through a combination of asset growth, careful cash control and investment management and liability minimisation.

The Group manages the assets of the Group Insurance Companies to maximise income achieved without substantial risk. The assets are invested substantially in fixed interest government and agency securities, high grade corporate bonds, money market funds and cash deposits. The Group outsources investment management responsibilities to EPIC Investment Partners Limited, a specialist fixed interest fund manager and Mellon Fund Managers Limited. Each of the companies in the Insurance Company Division has its own investment committee, which operates within general risk guidelines established by the Group.

Liability minimisation is achieved by combinations of negotiation with counterparties regarding specific exposures, legal action where appropriate, and the offsetting of different exposures to the same insurance counterparties across portfolios. The Group has invested substantial amounts in IT systems which support the efficient management of the Group Insurance Company portfolio.

The Group's expertise in managing liabilities includes the use of reinsurance contracts and the Group continues to review other mechanisms to facilitate liability management including portfolio transfers, statutory transfers of liabilities between insurance companies (also known as 'Part VII transfers').

The Group's objective in acquiring insurance companies is to target an internal rate of return of 20 per cent. per annum over a period of approximately five years, excluding service income generated for the Insurance Services Division. Returns may be achieved by managing the liabilities to increase surplus capital and extracting cash through dividends and share buybacks (with regulatory approval). Complete exit may be achieved by means of a solvent scheme of arrangement (in certain jurisdictions), portfolio transfer or sale to a third party. Timing of cash extraction or exit is by its nature uncertain and will depend on the speed and success of the run-off. Prior to surplus cash

extraction, the Group must be able to satisfy regulators that surplus capital exists which can properly be released to its owner without endangering the rights of policyholders.

The Group has successfully built an in-house expertise in the implementation of various surplus cash extraction mechanisms. Cash extraction mechanisms in the run-off sector are technically challenging, time consuming and require regulatory approval.

The Group has achieved successful returns of capital in respect of several companies both for Group Insurance Companies and third party owned companies. Cash returns have been achieved from Ludgate and La Metropole. Cash releases in respect of these companies were achieved in 1997, 2002 and 2007 totalling approximately \$4.5 million and included warranty claims, a solvent scheme of arrangement and dividends.

The table below provides a summary of cash realisations achieved by the Group from insurance companies owned by Dukes Place. The Group advised Dukes Place in relation to its portfolio of insurance companies, albeit that ultimate investment decisions regarding acquisitions and exits from these companies were made by Dukes Place:

| <i>Company</i> | <i>Vendor</i> | <i>Acquisition date</i> | <i>Capital returned \$m</i> | <i>Period of investment</i> | <i>Return on investment p.a.</i> |
|--------------------------------------------------|-------------------------|-------------------------|-----------------------------|-----------------------------|----------------------------------|
| Unione Italiana (UK) Reinsurance Company Limited | INA Vita Group | 1998 | 38.3 | 8 years | 10.5% |
| Cavell Insurance Company Limited | Aviva, Winterthur, Aioi | 2003 | } 106.1* | 4 years | } 82.3% |
| Cirrus Re | IF/Sampo | 2004 | | 3 years | |

* Cirrus Re was acquired as a subsidiary to Cavell Insurance Company Limited. As a result, exit from the Cavell Insurance Company Limited investment included Cirrus Re.

In the case of Cavell Insurance Company Limited, the equity returns achieved arose from a combination of the fact that the business was acquired at a cash price of £32 million in debt and equity, representing a discount to net assets at that time of approximately 40 per cent., and this book value was subsequently enhanced by £13 million through commutations and other means. Capital was realised via a combination of approximately £27 million in dividends and share buy backs and a £30 million sale to Enstar Group Limited in 2006.

Capital from Cavell Insurance Company Limited, Cirrus Re and Unione Italiana (UK) Reinsurance Company Limited was extracted through a combination of dividends, share buy-backs, loan repayments and finally sale to Enstar Group Limited in 2006.

In aggregate, the Dukes Place portfolio companies have returned approximately \$144 million to investors compared with a combined purchase price of \$110 million (representing equity investment of \$64 million plus debt of \$46 million). In addition Dukes Place retains two insurance companies with a combined NAV as at 31 December 2006 of \$96 million.

1.2.3 *Liquidity Management Division*

The Liquidity Management Division provides liquidity solutions to the London and international insurance and reinsurance markets by facilitating the trading of receivables for cash. In addition, it provides collection and commutation services. Opportunities in these markets are arising with increased frequency and the Directors believe the service:

- enables solvent and insolvent schemes of arrangement to expedite finality;
- improves the solvency position of companies which are being damaged by slow moving reinsurance recoveries;
- helps to reduce the hidden 'cost' of insurance companies not crystallising their main assets for cash in a rising interest rate environment; and
- offers the benefits and flexibility of recourse financing to a market in which these are well understood.

RFML is the subsidiary through which this acquisition and service business operates. The Liquidity Management Division generates its income through the profits arising from the recovery of amounts in excess of the cost of acquired reinsurance receivables. In addition, it also generates income through contingency fees arising from the debt collection and commutation services it provides on behalf of its clients.

Traditionally, RFML has acquired reinsurance receivables on a non recourse basis where it acquires the receivables for a fixed amount, collects the maximum amounts possible and aims to make a surplus for its own account. Recently, a recourse financing initiative has been introduced by RFML whereby the downside risk for the Group arising from non-recourse acquisitions is mitigated.

Debt portfolios acquired to date on a non-recourse basis have achieved a combined annualised return in excess of 30 per cent., with a capital cost of \$2 million. The recourse initiative has only recently been launched and there are no historical returns available. Going forward, this is an area of business in which the Group expects to make further investment.

1.3 An overview of the non-life run-off sector

The information on the non-life run-off sector contained in this section 1.3 reflects the beliefs of the Directors. Such beliefs are based on their knowledge and experience of the sector.

1.3.1 Background

When an insurance company ceases underwriting new business, or a particular line of business, the insurer, or line of discontinued business, is placed in run-off. Claims will continue to be paid out of the accumulated reserves of the business, but no new business is taken on. Many major insurance groups have subsidiaries or portfolios of business which have been put into run-off either as a strategic move, typically due to a change in the direction of the parent entity following a merger or change in objectives, or due to poor underwriting results. On occasion, higher returns from underwriting elsewhere, or catastrophe losses generating a need for capital in the parent group, can also result in businesses being placed in run-off.

In general, run-off portfolios are classified as having either short tail or long tail claim liabilities. Short tail claims (such as damage to property by fire or windstorm) tend to be settled over a period of one to four years and the variation in the ultimate outcome of losses (known as the volatility) on the policies tends to be relatively narrow. Long tail claims (such as employers' liability, asbestos, pollution, health hazard and mass tort) can take up to 20 years or more to ultimately settle. The potential claims on such policies generally have a higher degree of volatility for longer in their development, which means that predicting the exact amount of future payments which the insurer will eventually make to settle those claims is more difficult.

The insurance liabilities, which reflect the estimated claims on policies underwritten by each entity, include current outstanding claims and an actuarial analysis of what future claims may amount to, including claims that have not yet been finally determined, or even notified, but can be reasonably expected. In addition, provisions must be made for the costs of administering the run-off and the investment income that can be earned on the accumulated reserves until claims are paid out. In general, the confidence in the level at which claims reserves are set is dependent upon the recent claims history for short tail claims and market bench marks or contract exposure analysis for long tail claims, taking into account the effects of inflation, and other relevant factors, during the period the claims remain unsettled.

The principal assets of an insurance company in run-off typically comprise cash, investments and reinsurance recoveries. From these assets and any associated investment income the company must meet the cost of administering and paying all future claims on policies issued prior to the run-off. The residual balance, if any, will be returned to shareholders once all liabilities have been paid or when the regulator is satisfied, *inter alia*, that the implicit volatility of the value of the insurance liabilities has been reduced to a level where capital can be released. This assessment is based on estimates as to the appropriate level of reserves and residual capital that the business requires to settle all valid claims.

During the course of a run-off, an insurance company will be exposed to a range of risks, which need to be identified and managed. Those risks include adverse claim loss development (insurance risk), liquidity risks, operational risks, fluctuating foreign exchange rates and interest rates, and credit risk both in respect of investments and reinsurer solvency.

1.3.2 *Regulation and legal environment*

An insurance entity in run-off is usually a regulated company. In the UK, the FSA is the regulator of insurance companies, whilst in the US it is a function of the insurance departments of individual states, which have differing regulatory approaches. Regulators generally require companies in run-off to comply with accepted market principles, conduct risk assessments and monitor the progress of the company's run-off against a plan agreed with them. Companies in run-off are required to adopt appropriate methodologies to compute the level of capital to be applied against the various risks they face, and regulators will only allow a distribution to shareholders once the company can demonstrate that its capital is surplus to its ongoing requirements.

Acquisitions of insurance companies in run-off are subject to regulatory approval in most jurisdictions and regulators will sometimes require a strengthening of the reserves of the company, either by additional capital injections or by additional reinsurance cover, before permitting a change of control to occur.

The ordinary course of operation of regulated run-off companies requires the regular application of various legal processes to effect acquisitions and to facilitate shareholder returns. It is also a feature of the industry that claims litigation is common. An overview of the legal environment applicable to the Group is set out in the Risk Factors section (see Part IV and details of claims litigation which could be material to the Group are set out in paragraph 13 of Part IX). The risk factors should be read in conjunction with Part VII (Regulation).

1.3.3 *The non-life insurance run-off market*

It is estimated that the size of the global non-life run-off market is over \$400 billion in liabilities. Although this market is primarily in the UK, Europe and the US, recent run-off opportunities have arisen in new markets such as Bermuda, Australia and Asia. London is acknowledged as the most active market due to its well developed legal and regulatory framework which facilitates the ability to achieve finality for run-offs. There are a number of means to do this but a scheme of arrangement under the Companies Acts is a commonly used mechanism in the UK.

Because the sale of a run-off operation can realise capital for the former parent, it can increase capital efficiency. It also reduces the management time required to control the run-off process, as well as reducing risks. The vendors may consequently achieve improved ratings from rating agencies and a higher share price.

Moreover, the insurance industry is experiencing consolidation. As a result of this consolidation, and more active capital management, participants may have portfolios of business that are either inconsistent with their ongoing business, have proven unprofitable, or provide excessive exposure to a particular business line. These non-core and/or discontinued portfolios are often associated with potentially large exposures. Lengthy time periods before resolution of the remaining insured claims results in significant uncertainty to the insurer covering those risks.

These market drivers mean that over the long term, the run-off market tends to continuously regenerate itself. A current example of regeneration is the creation of special purchase reinsurance vehicles ("sidecars") which are generally intended to have a limited life and will accordingly go into run-off at some future point.

The global run-off market is currently fragmented and a large number of insurance portfolios in run-off are either embedded in, and managed by, large insurance companies, or are managed through outsourcing to third party service providers. There has been a steady growth over time in the use of contracted-out service providers and also in the tendency of the former parents to dispose of certain

of these businesses. Of particular interest to acquirors of insurance companies in run-off are those insurance portfolios that have long tail liabilities or have already been in run-off for some time, and which are expected to remain solvent for the duration of their run-off.

The Directors believe that there is an opportunity to acquire such portfolios or insurance companies, thus providing certainty, and a possible capital release, to the current owners, without prejudicing the security for the policyholders. Liberalisation of EU regulations presents significant opportunities and in the US the run-off industry remains undeveloped and fragmented due to individual state regulation.

1.4 Group strategy

The Group's strategy is to exploit its international reputation and expertise in the specialist non-life insurance run-off sector. The business focuses on identifying capital plays in the acquisition of insurance portfolios in run-off, insurance claims and reinsurance debt. The Group intends to increase its services operations geographically and broaden its range of services.

The Group's principal target markets are the UK, US, Europe and Bermuda, where it focuses on companies with an acquisition price of up to \$40 million. Where larger opportunities arise, the Group may consider partnering with interested third parties to maximise deal economics and returns on capital.

The Insurance Services Division provides positive cash flow and profits to pay regular dividends. In addition, the Directors believe that the expertise within the Insurance Company Division in acquiring further insurance companies in run-off and achieving cash extraction and exits underpins the future growth of the Group. It also provides the potential to return surplus cash to Shareholders and to generate funds for further investment. To date, the Group has extracted approximately \$150 million for itself and third parties.

RFML will continue to underpin its revenue streams by providing contingency collection and commutation services. The Directors believe this will allow the Liquidity Management Division to focus more on acquiring reinsurance debt. It will develop its recourse financing arrangements with major cedants. Opportunities also now exist for the Liquidity Management Division to acquire residual books of reinsurance receivables, future dividend streams owed by insolvent reinsurers and certain bespoke uncollected reinsurance claims or portfolios.

1.5 Competitive strengths

The Directors believe that the Group's existing competitive strengths, together with further enhancement of the Group's acquisition capabilities, through access to the equity capital markets, will continue to enable it to take advantage of opportunities that exist in the run-off market. Existing competitive strengths include:

- **Acquisition skills and capabilities** – The majority of the Group's senior management team have substantial run-off acquisition experience. The Group has in-house skills to acquire portfolios or insurance companies in run-off including identifying suitable targets, financial modelling, and valuation techniques, actuarial reviews, due diligence, negotiation and integration planning. The Group's eight acquisitions to date are evidence of the Group's ability.
- **A wide service offering** – The Group is able to manage owned insurance companies in-house as well as to provide services to third parties with books of business in run-off.
- **Brand** – The strength of the Group's brand, both as a run-off acquirer and servicer, is reflected in the number of invitations it has received to bid for or manage run-off books. The Directors believe that having strong regulatory and industry relationships facilitate acquisitions from larger insurance groups. The Group has recently been selected as 'Run-off Management Service Provider of the Year 2007' by the Association of Run-off Companies ('ARC').
- **Management** – The Directors and senior management of the Group are an experienced and accomplished team with many years of deal experience in the solvent non-life insurance sector.
- **Experienced run-off skill set** – The Group possesses high levels of run-off skills, including run-off management, asset and liability management and actuarial analysis.

- **Sustainable free cash inflow** – The Insurance Services Division generates a steady stream of sustainable cash inflow for the Group from both internal and external business.
- **Proprietary software** – The Group has developed a proprietary software system which the Directors believe will provide greater visibility across books of business and that this generates economies of scale in terms of processing for the Group and facilitates management of inward and outward claims across portfolios.

1.6 Competition

Competition in the solvent non-life run-off market is extensive, with participants falling into two main categories; industry players, such as insurance groups and specialist run-off players, and non-industry players, such as hedge funds. Generally, there has been a move to acquire insurance companies as well as running them off under contract as outsourcers, although some competitors still operate a pure outsourcing model.

Larger companies from within the insurance industry, which make up the majority of participants, include Berkshire Hathaway, the Enstar Group Limited and Tawa plc. The Group has in the past worked jointly with Berkshire Hathaway on run-offs where, for example, additional reinsurance from Berkshire Hathaway has been required by the regulators to bolster solvency, and the Group has handled the management of the run-off in collaboration with Berkshire Hathaway.

The Directors are confident that the competitive strengths of the Group position it to build market share through acquisitions of insurance companies in run-off. Specifically, they believe that the breadth of the Group's portfolio of business, the management team's experience in the run-off market and its track record of acquiring and successfully realising value and cash extraction, give the Group a competitive advantage.

1.7 Development of the Group

The Group was formed in the early 1990s by Ken Randall and Alan Quilter, the founding shareholders, to provide services to the international insurance and reinsurance markets. The Group's principal subsidiary became one of the largest third party service providers to the insurance industry, and was named Eastgate, following substantial expansion.

In 1996, the founding shareholders were involved in the formation of a separate fund, Dukes Place, which was backed by US based private equity investors. This fund was set up to acquire solvent insurance companies in run-off. The Dukes Place fund operated for several years thereafter, acquiring six insurance companies in run-off.

The Group continued to develop outside the run-off sector, in both the UK and US market, into other claims handling and administrative service operations to the live underwriting market until the UK part of the Eastgate business was sold to Capita plc in 2000. The Group then focused its efforts on the US market, where it considered there were opportunities to pursue.

Between 2000 and 2003, the Group operated principally in the US, and was subject to a non-competition restriction which prevented it from providing third party run-off services in the UK. Following the release from this restriction in late 2003 the Group re-assessed the scope for opportunities in the UK market and decided to rebuild its UK market presence by acquiring Cavell Management Services Limited. The Group then set about developing its service business in the UK as well as the US.

In late 2003, the Group formed a new managing agency at Lloyd's to assume the management of Lloyd's syndicates in run-off, and continued to manage the increasing size and value of insurance companies acquired by Dukes Place.

In 2005, the Group commenced providing liquidity management solutions for its non-life reinsurance receivables. The Liquidity Management Division provides collection services and the outright purchase of reinsurance receivables at discounts.

In the same year Dukes Place was actively seeking means whereby it could achieve liquidity for the investment it had made on its insurance portfolio. In 2006, the relationship with Dukes Place was terminated. The Group proceeded thereafter to acquire solvent insurance companies in run-off for its own account using a combination of the Group's own cash resources and external debt. During 2006, the Group acquired three insurance companies in run-off from the ACE Group, one from Tryg Baltica and one from ExxonMobil.

In total, the members of the Group have been instrumental in the acquisition of 14 insurance companies; eight for its own account and six for Dukes Place. The Insurance Services Division has shown growth in income from £13.0 million in the calendar year 2004 to £18.2 million in the calendar year 2006.

1.8 Directors and senior management

1.8.1 Directors

The Board comprises two executive directors and three non-executive directors. Details of the Board are set out below.

Ken Randall, Chairman and Chief Executive Officer, age 59

Ken Randall is a certified accountant and has worked in the insurance industry for more than 30 years. During the early 1980s, he was head of regulation at Lloyd's. After seven years as chief executive of the Merrett Group, which at the time managed a number of high profile syndicates at Lloyd's, Ken went into partnership with Alan Quilter in 1992 and founded Randall & Quilter. Ken became Chief Executive Officer of the Group, which expanded to become the UK's largest third party provider of insurance services with 1,300 employees and a turnover of over £80 million before the sale of the majority of its UK operations to Capita plc in November 2000.

Ken Randall has the joint role of Chairman and Chief Executive Officer, which the Board considers appropriate given the size and nature of the Group. The Company will be seeking to strengthen the management team in the medium term by identifying a suitable candidate to assume the position of Chief Executive Officer with Ken remaining as Executive Chairman.

Alan Quilter, Group Finance Director, age 56

Alan Quilter is a chartered accountant and has worked in the London insurance market since 1969. Between 1980 and 1987, he headed the Market Financial Services Group at Lloyd's before becoming managing director of Cheval Investment Management, a specialist investment management company focused on insurance markets in the UK. In 1992, Alan joined Ken Randall to form Randall & Quilter. He was chief financial officer of the Eastgate Group and continued in the role of Finance Director of the Group after 2000, with overall responsibility of the Group's finance functions.

Paul McNamara, Non-Executive Director, age 59

Paul McNamara is a chartered accountant. He spent his professional career with Ernst & Young LLP (or its predecessor firms) which he joined from Cambridge University in 1970, becoming a Partner in 1979. He retired in March 2007. His experience in recent years has been with major audit clients of the firm particularly for insurance related entities including Lloyd's brokers, Lloyd's syndicates and a major UK general insurer. He has also been involved with several Lloyd's corporate capital raising assignments primarily for new investor groups. He has been a director of a Bermudian mutual insurance company for several years and was its chairman for four years until November 2006. He was, for a number of years, the partner in charge of the Ernst & Young insurance practice and served for 14 years on the management council of the firm.

Michael Smith, Non-Executive Director, age 62

Michael Smith is a solicitor, having spent his professional career at city solicitors Titmuss Sainer & Webb (now international law firm Dechert) of which he was senior partner from 1990 to 1998, retiring from legal practice in 2001. He was a corporate lawyer, having specialised from the mid 1980's in the

London and international insurance markets, with a concentration on capital transactions of all types. He has been a non-executive director of a number of Lloyd's Agencies, including ACE Underwriting Agencies Limited from 1998 until 2004 when he joined the main board of Brit Insurance Holdings PLC, where he is a member of the remuneration and nomination committees and chairman of the latter. Since 2004, he has been one of the independent non-executive directors of Cavell Managing Agency Limited, the managing agent of Goshawk Syndicate 102 in run-off at Lloyd's. He is also involved as a trustee of a number of UK charities.

Jo Welman, Non-Executive Director, age 49

Jo Welman was a director of Brit Insurance Holdings PLC from its flotation in 1995 and was its chairman from January 2000 to September 2002 and a non-executive director of Cathedral Capital until 2006. He is also chairman and co-founder of EPIC Investment Partners Limited, which carries out certain investment management functions for the Group.

Prior to this he was a director of Rea Brothers Group and managing director of its investment management subsidiary. Previously he had spent over 10 years at Baring Brothers where he managed several large segregated UK and US public company pension funds. Jo graduated in Economics from Exeter University.

Details of the Directors' shareholdings in the Company, both prior to and following Admission, are set out in paragraph 6 of Part IX of this document.

1.8.2 Senior management

The Board considers the following individuals to be key senior members of the Group's management team:

Robin McCoy, Group Chief Operating Officer and Chief Executive Officer of the Insurance Services Division

Robin McCoy is a chartered accountant with over 15 years' experience in the insurance industry. In that time he has been actively involved in the resolution of some of the most complex run-offs including Gooda Walker, Devonshire, Duncanson & Holt and Cotesworth/HH. In addition he has been responsible for the creation of the outsourced infrastructure to support "virtual" Lloyd's syndicates. From 2000 to 2003, he was managing director of Capita London Market Services Limited and since 2003 he has been the chief executive officer of the Insurance Services Division.

John O'Neill, Prospective Chief Operating Officer of the UK Insurance Services Division

John O'Neill has 23 years' experience in the London insurance market, working in both the active and run-off sectors. Most recently he was group head of claims for Wellington plc. While at Wellington plc, John was also the chairman of the Lloyd's Market Association's Claims Committee. He is currently a member of the CII's Faculty of Claims Board. John also has extensive experience with the United States insurance and reinsurance market through his time as an account manager in the Equitas Claims Unit. John is a Fellow of the Chartered Insurance Institute and a graduate in mathematics and French from the University of London.

John will join the Group in January 2008.

Charles Singh, Chief Financial Officer of the Insurance Company Division

Charles Singh is a chartered accountant and has worked in the insurance industry for over 20 years. He joined Eastgate in 1995 where he was a manager in the consultancy division and in 1998 became an advisor to Dukes Place, a private equity client of Eastgate established to purchase insurance companies in run-off. Charles has concentrated on the acquisition and financial management of insurance companies in run-off since 1998 and is currently the chief financial officer of the Insurance Company Division.

Pamela Sellers-Hoelsken, Chief Operating Officer, Cavell USA

Pamela Sellers-Hoelsken has worked in the insurance and reinsurance industry for 20 years in both an active and run-off capacity. Her areas of specialisation are accounting and reinsurance. As chief operating officer of Cavell America, she is responsible for overseeing all of Randall & Quilter's North American operations. She has extensive experience of US regulatory reporting requirements as well as the financial and system functions related to insurance company processing.

Peter Green, Group Actuary

Peter Green is a Fellow of the Institute of Actuaries. He commenced employment with Norwich Union in 1970 and rose to become general insurance actuary in 1994. In 1997, he was appointed senior manager and actuary for Cavell and Cavell Insurance Company Limited (formerly known as NW Re Insurance Corporation Limited). Since November 2003 he has been a director of Cavell Management Services Limited and of Cavell Managing Agency Limited since 2006.

Susan Grondine, US General Counsel

Susan Grondine is a qualified attorney and certified insurance and reinsurance arbitrator with extensive knowledge of managing litigation and arbitration in the US 'Property and Casualty' insurance industry. She has spent the last 20 years working with both active companies and insurance and reinsurance companies in run-off. In addition to overseeing legal matters in the US, Susan's prime responsibility is the design and implementation of claims, commutation and reinsurance strategies for the Group's US companies.

John Shaw, Group IT Manager

After starting his career in banking, John has worked in the reinsurance industry for 27 years and IT for 29 years. He has been with group companies for over 25 years and has managed the IT function since 1993. He is responsible for IT strategy and the provision of IT services to the Group covering both internal requirements and the needs of external clients. He also manages the support and operation of all the Group's systems, hardware, networks and telecoms.

Peter McCann, Company Secretary

Having qualified as a Chartered Accountant, Peter worked for the Merrett Group, which was one of the largest Lloyd's managing agency groups, in a variety of senior financial roles and as group company secretary for fifteen years up to 1992. He then joined what was to become the Eastgate Group and from 1998 was responsible for the London Market Division of that group. He left the Eastgate Group in 2001 after its acquisition by Capita plc and has carried out a number of consultancy and management roles within Randall & Quilter to date.

1.9 Summary financial information

The table below, the contents of which have been extracted from the historical financial information for the Group as set out in Part V of this document, summarises the trading record of the Group and of the Insurance Services Division for the three years ended 31 December 2006 and nine months ended 30 September 2007, and the Group balance sheet at the period end dates. These have been converted from audited historical financial information prepared in accordance with IFRS by the Reporting Accountants for the purposes of Admission.

| | <i>Year ended 31 December</i> | | | <i>9 months ended</i> |
|-------------------------------------------------|-------------------------------|--------------|--------------|-----------------------|
| | <i>2004</i> | <i>2005</i> | <i>2006</i> | <i>30 Sept</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>2007</i> |
| | | | | <i>£'000</i> |
| Group Balance Sheet | | | | |
| Gross assets including cash and investments | 125,777 | 136,813 | 668,816 | 584,407 |
| Net assets | 11,318 | 13,011 | 51,616 | 54,993 |
| Negative goodwill arising on acquisitions | 8,215 | – | 35,958 | – |
| Group Profit and Loss | | | | |
| Income | 13,928 | 15,555 | 22,967 | 19,377 |
| Operating profit before goodwill and impairment | (798) | 283 | 5,190 | 5,147 |
| Profit before tax | 7,399 | 151 | 39,076 | 3,785 |
| Profit after tax | 7,197 | 544 | 39,453 | 4,740 |
| Insurance Services Division | | | | |
| Income | 13,011 | 14,790 | 18,154 | 14,118 |
| EBITDA | 867 | 1,746 | 1,824 | 3,572 |

The aggregate of the net assets of the Group Insurance Companies as derived from their individual accounts as at 30 September 2007 was £75 million.

The Directors believe that acquiring Group Insurance Companies in run-off will enhance the profitability of the Group as the fees charged for services provided by the Insurance Service Division will be offset against claims handling provisions already established by Insurance Companies.

The Group's profit for the year ended 31 December 2004 and 2006 contained credit for negative goodwill of £8,215k and £35,958k respectively. The negative goodwill credits arose due to the acquisition of Group Insurance Companies in the respective years priced at a discount to net asset value. Under IFRS this creates negative goodwill. The accounting treatment for negative goodwill requires it to be credited to the profit and loss account. Movement in results arising from this treatment is likely to be significant.

The principal influences on the Group's results have arisen from the acquisitions of Group Insurance Companies. In addition to the impact on the profits of the Group due to negative goodwill arising in the year of acquisition, these have given rise to an increase in income and profits of the Group with the full impact occurring in the year following acquisition. Acquisitions were effected by the Group in 2004 and 2006, but not in 2005 or the first 9 months of 2007.

The Group has substantial tax losses, which have been acquired along with the Group Insurance Companies. To date it has been able to utilise these losses to minimise tax paid within its business.

1.10 Current trading and prospects

Current trading and profits are in line with expectations. In addition, the Group has a pipeline of new business opportunities both as regards the acquisition of insurance companies in run-off and third party service contracts. The Group continues to negotiate the acquisition of a number of portfolios of reinsurance receivables.

Plans are well advanced to introduce two new activities to the market. The first of these is the broking of reinsurance receivables on behalf of counterparties reinsured by the London market and the second is the collection of fees for advisers operating within the London Market.

The Directors are seeking to establish a reinsurance subsidiary in Bermuda as part of a strategy to use the Group's capital more efficiently. Accordingly, a portion of the funds raised under the Placing may be used to capitalise a Bermuda subsidiary. In the past, the Group has used third party reinsurers such as Berkshire Hathaway's National Indemnity Company to support acquisitions. The Directors believe that the benefit of reinsuring in whole or in part with a Group-owned entity is that the Group will reduce the economic value

ceded to such third party reinsurers and, importantly, achieve much greater flexibility as regards the terms of such reinsurance. The Group, nevertheless, expects to continue to use third party reinsurers where intra group cover may not be available or appropriate.

1.11 Dividend policy

The Directors intend to adopt a progressive dividend policy which will take into account the Group's underlying growth in earnings, capital requirements, cash flows and appropriate level of dividend cover.

In the absence of unforeseen circumstances and subject to there being sufficient distributable reserves, the Directors intend to pay a dividend of 4.8 pence per Ordinary Share in respect of 2008 and will follow a progressive policy thereafter. These regular dividends will be underpinned by the cash flows from the Insurance Services Division. The Directors expect the first dividend will be the interim dividend in respect of 2008, which will be declared following the announcement of the Group's interim results for the six months to 30 June 2008.

The Group actively seeks acquisitions for the Insurance Company Division. To the extent that the Directors believe that there are no appropriate acquisition candidates in the pipeline at the time of realisation of funds from Group Insurance Companies, the Directors will look to return cash to Shareholders in an appropriate manner.

1.12 Financial controls

The Group's finance function is headed by Alan Quilter, Group Finance Director. The key financial controls employed by the Group are summarised below:

Insurance Services Division and Liquidity Management Division

- The individual budgets and business plans for each of the companies in the Insurance Services Division and Liquidity Management Division are consolidated to produce budgets and business plans which are approved by the Board.
- The annual budgets are prepared down to nominal account level. They are largely based on budgetholder submission for cost and manpower requirements. These submissions are then consolidated going through a rigorous review process before the overall budget is finalised.
- The performance of each operation against the budget is monitored on a monthly basis through monthly management accounts and significant variances against budget are investigated at divisional level board meetings and ultimately the Group level board meetings.
- As part of the monthly management accounts process for the Insurance Services Division and Liquidity Management Division, rolling forecasts are updated and reported to the Board. These ensure that the Directors are made aware of both favourable and adverse developments in the Insurance Services Division financials.

Insurance Company Division

- The Group Insurance Companies prepare individual run-off projection models which are revised annually and which are approved by the individual boards. The performance of the Group Insurance Companies will be monitored quarterly through quarterly management accounts. Major developments are reported to the board of the relevant company.
- The Group has an internal actuarial department which monitors claim reserves and reports to the board of each Group Insurance Company. The actuarial department also liaises with external actuaries.
- Board meetings are held at least quarterly (except for Ludgate and La Metropole) to consider strategy and management matters.

General controls

Segregation of duties

The Group has a policy of segregating key responsibilities to prevent the subversion of business critical function:

- Sensitive functions are segregated, for example payment authorisation and release.
- Authority limits are in place within the claims adjusting process based on experience levels.
- A series of functional roles are maintained, aligned to staff experience levels.

Internal audit function

An internal audit function has been established, and will report to the Audit Committee. The purpose of the internal audit function is to provide management with independent assurance on the effectiveness and efficiency of operational controls within the Group.

All of these procedures will continue following Admission.

1.13 Reasons for Admission and the Placing

The Placing is expected to raise £17.1 million (net of expenses) for Randall & Quilter. These funds will enable the Group initially to reduce bank debt and to pursue its strategic development, both by acquisition of non-life insurance companies in run-off, and by the continued development of its innovative business areas such as the Liquidity Management Division. Proceeds may also be used to establish a Bermuda reinsurance subsidiary, as mentioned above.

On Admission the Group will be one of two non-life consolidators within the run-off sector quoted in the UK, and that Admission will be beneficial for the Group as it will enable the Group to use, in addition to its debt facilities, equity as a currency for future acquisitions and to conduct secondary fundraisings subject to such Shareholder approvals as may be necessary. In addition, the Directors expect that Admission will enhance the Group's credibility in the international insurance run-off market and increase awareness of its brand.

The Directors also believe that Admission will provide further incentives to both existing and prospective employees.

1.14 Share Option Plans

Following Admission, the Company will operate the following share plans for qualifying employees:

The Randall & Quilter Investment Holdings Limited Long Term Incentive Plan

The Randall & Quilter Investment Holdings Limited Executive Performance Share Plan

The Randall & Quilter Investment Holdings Limited Deferred Bonus Share Plan

The Long Term Incentive Plan provides for the grant of options over Ordinary Shares. The intention is for the grant of discretionary option awards to employees which will normally vest on the third anniversary of the grant of the option (or on such other date or condition as determined by the Remuneration Committee on or prior to the date of the award).

The Executive Performance Share Plan provides for the grant of options over Ordinary Shares. The intention is for the grant of discretionary option awards to be granted to executive directors and other key employees. The options will be granted with a nil option price and will vest on the satisfaction of performance conditions as determined by the Remuneration Committee.

The Deferred Bonus Share Plan provides for employees to defer a portion of their discretionary bonus award into an award of Ordinary Shares with an aggregate market value equal to the deferred bonus. The shares awarded will be restricted from sale for a period. Where the participant remains in employment for the period

of the restriction the initial award will be enhanced with further shares at no cost. It is intended that the further shares are awarded if the initial awards shares have not been sold and the participant is employed by the Group for a period of three years, or such other time limit as determined by the Remuneration Committee. The Remuneration Committee may limit the number of shares available for the Deferred Bonus Share Plan in any year.

The Company has also established an employee benefit trust. The trust is a discretionary trust and has been established for the benefit of the employees and former employees of the Group and defined dependants. One of the purposes of the trust is to satisfy awards granted under the Share Option Plans, as agreed between the trustee and the Remuneration Committee. The trust can subscribe for Ordinary Shares in the Company.

The Share Option Plans restrict the total number of options shares to be awarded under the Share Option Plans to 10 per cent. of the issued share capital of the Company. The principal features of the Share Plans are set out in paragraph 5 of Part IX of this document.

1.15 Cumulative redeemable preference shares

In addition to Ordinary Shares, the Company has in issue one cumulative redeemable preference A share and one cumulative redeemable preference B share which are held by ACE Group (“ACE”).

The preference A share was issued as a form of deferred consideration to ACE in relation to the acquisition by the Company of R&Q Re (US) from ACE. This share entitles ACE to a cumulative preference dividend representing one half of any profits received by the Group, net of any tax payable thereon, in respect of the capital stock or surplus of R&Q Re (US). The maximum aggregate amount of the dividend payments in relation to this preference A share is \$5 million.

The preference B share was issued as a form of deferred consideration to ACE in relation to the acquisition by the Company of R&Q Re (UK) from ACE. This share entitles ACE to a cumulative preference dividend representing one half of any profits received by the Group, net of any tax payable thereon, in respect of the capital stock or surplus of R&Q Re (UK). The maximum aggregate amount of the dividend payments in relation to this preference B share is \$10 million.

1.16 Banking facilities

The Group has a loan facility with the Royal Bank of Scotland plc acting as agent for National Westminster Bank plc as lender. The facilities, which are available until 31 May 2012, include a term loan of £12.5 million and a revolving credit facility of £7.5 million. As at 30 September 2007, there was approximately £14.0 million drawn under the facilities. The intention of the Board is to repay amounts outstanding on both facilities using the proceeds of the Placing and to restructure the loan facilities so that the term loan is cancelled and the funds available under the revolving credit facility are increased to £20.0 million.

1.17 Corporate governance

The Directors intend that Randall & Quilter will comply with the provisions of the Combined Code in so far as they are appropriate for a company of its size and nature. Ken Randall has the joint role of Chairman and Chief Executive Officer, which the Board considers appropriate given the size and nature of the Group.

An Audit Committee, comprising Paul McNamara, Michael Smith and Jo Welman, has been established by Randall & Quilter to operate from Admission. The Audit Committee will be chaired by Paul McNamara and will meet at least twice each year. The Audit Committee will be responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported on and for meeting with Randall & Quilter’s auditors and reviewing their reports on the financial statement and internal controls.

Randall & Quilter has also established a Remuneration Committee, comprising Paul McNamara, Michael Smith and Jo Welman, to operate from Admission. The Remuneration Committee will be chaired by Jo Welman. The Remuneration Committee will be responsible for reviewing the performance of the executive Directors, setting their remuneration, determining the payment of bonuses, considering the grant of options

under any share option scheme and, in particular, the price per share and the application of performance standards which may apply to any such grant.

Given the size and nature of the Group, the Board does not consider it appropriate at this stage to establish a Nominations Committee.

The Directors have also considered the guidance issued by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal requirements of the Combined Code. The Board intends regularly to review key business as well as financial risks facing Randall & Quilter in the operation of its business.

The Company has adopted and will operate a share dealing code for Directors and employees in accordance with the AIM Rules. In addition, the Directors will comply with Rule 21 of the AIM Rules relating to Directors' dealing and will take all reasonable steps to ensure compliance by the Group's applicable employees.

1.18 Regulation

Information regarding regulation of the Group is set out in Part VII of this document. Restrictions relating to change of control in the Company's share capital are contained in the Articles.

In particular, where a person acquires or proposes to acquire any Ordinary Shares which would, if acquired without the provisions of the Articles, result in that person becoming a controller, within the meaning given to that expression in section 422 of FSMA (a "Controller") or having increased control within the meaning given to that expression in section 180 of FSMA ("Increased Control"), the Directors may serve a notice (an "Affected Share Notice") on the registered holder of that share.

A person is likely to become a Controller or have Increased Control of the Company where he acquires an interest in Ordinary Shares carrying 10 per cent. or more of the voting rights in the Company or where his interest in shares carrying voting rights in the Company reaches 20 per cent., 33 per cent. or 50 per cent.

Where the Directors have served an Affected Share Notice, they may require (and, if necessary, execute) the transfer of any affected share. In addition, a share that is the subject of an Affected Share Notice will not carry the right to attend, speak at or vote at any general meeting of the Company.

Full details are set out in paragraph 4 of Part IX of this document.

1.19 Application of The City Code on Takeovers and Mergers

The Panel on Takeovers and Mergers (the "Panel") is an independent body, whose main functions are to issue and administer The City Code on Takeovers and Mergers (the "Code") and to supervise and regulate takeovers and other matters to which the Code applies in accordance with the rules set out in the Code. The Code is designed principally to ensure that shareholders are treated fairly and are not denied an opportunity to decide on the merits of a takeover and that shareholders of the same class are afforded equivalent treatment by an offeror. The Code also provides an orderly framework within which takeovers are conducted. In addition, it is designed to promote, in conjunction with other regulatory regimes, the integrity of the financial markets. On Admission, the Code will apply to the Company.

Under Rule 9 of the Code, any person who acquires an interest (as defined in the Code) in shares which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting right of a company which is subject to the Code, is normally required to make a general offer to all the remaining shareholders to acquire their shares.

Similarly, when any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of such a company but does not hold shares carrying more than 50 per cent. of such voting rights, a general offer will normally be required if any further interests in shares are acquired by any such person.

An offer under Rule 9 must be made in cash and at the highest price paid by the person required to make the offer, or any person acting in concert with him, for any interests in shares of the company during the 12 months prior to the announcement of the offer.

At the date of this document, Ken Randall, Alan Quilter and Mark Randall (collectively the “Concert Party Group”) are deemed to be acting in concert for the purposes of the Code by virtue of the existence of long standing personal and business relationships. Following Admission the Concert Party Group will between them be interested in 29,532,500 Ordinary Shares representing approximately 52.8 per cent. of the total voting share capital of the Company in issue at Admission. The members of the Concert Party Group will together be interested in more than 50 per cent. of the total voting share capital of the Company in issue at such time and (for so long as they continue to be treated as acting in concert) may accordingly increase their aggregate interests in Ordinary Shares without incurring any obligation under Rule 9 of the Code to make a general offer although individual members of the Concert Party Group will not be able to increase their percentage interests in Ordinary Shares through or between a Rule 9 threshold without Panel consent.

Following Admission Ken Randall will be interested in 21,804,000 Ordinary Shares representing 39.0 per cent. of the total voting share capital of the Company in issue at Admission. Accordingly, Ken Randall will not be able to increase his interest in Ordinary Shares without Panel consent.

Further details concerning the members of the Concert Party Group and their respective interests in the Company are set out in paragraph 6 of Part IX.

In the event that the place of central management and control of the Company were to be determined by the Panel to no longer be within the UK (for example as a result of a majority of the Directors ceasing to be domiciled in the UK), the Code would cease to apply to the Company and Shareholders would cease to be protected by the Code.

1.20 Taxation

Information regarding taxation is set out in paragraph 12 of Part IX of this document. These details are intended only as a general guide to the current tax position under UK taxation law. If an investor is in any doubt as to his tax position he should consult his own independent financial adviser immediately.

1.21 Further information

Your attention is drawn to the Risk Factors set out in Part IV of this document and the information contained in the rest of this document.

PART III

THE PLACING

1.1 Placing arrangements

The Placing comprises a total of 24,800,000 Placing Shares at the Placing Price, of which 16,000,000 are New Ordinary Shares which are being sold for the benefit of the Company and 8,800,000 are Vendor Placing Shares which are being sold for the benefit of the Vendors. The Placing is intended to raise approximately £20.0 million (before expenses) for the Company and approximately £11.0 million (before expenses) for the benefit of the Vendors. Noble and Numis are acting as joint placing agents for the Company and the Vendors in respect of the Placing. The Placing is not underwritten but has been pre-placed with institutional and other investors.

All New Ordinary Shares will be issued at the Placing Price. The 16,000,000 New Ordinary Shares will represent approximately 28.6 per cent. of the Enlarged Share Capital immediately after Admission.

At Admission, the Directors, the Vendors, certain employees of the Group and their respective connected persons will hold a total of 31,130,500 Ordinary Shares, representing approximately 55.7 per cent. of the Enlarged Share Capital. The Executive Directors and certain employees will be entitled to participate in the Share Option Schemes, further details of which are set out in paragraph 5 of Part IX of this document

The New Ordinary Shares to be issued and allotted pursuant to the Placing will be eligible to receive all dividends and other distributions declared, made or paid in respect of the issued ordinary share capital of Randall & Quilter after the date of issue of such New Ordinary Shares and will otherwise rank *pari passu* in all respects with the Existing Ordinary Shares, including in relation to voting rights and participation in profits of the Company.

The Placing, which is on the terms and conditions set out in Part VIII of this document, is subject to the satisfaction of certain conditions contained in the Placing Agreement. Further details of the Placing Agreement are set out in paragraph 9 of Part IX of this document.

1.2 Lock-ins and orderly market arrangements

Under the Placing Agreement, the Directors, and the Vendors have undertaken to Noble and Numis that they will not (and to procure that their respective connected persons will not) sell or dispose of, except in certain circumstances or with the prior consent of Noble and Numis, any of their respective interests in Ordinary Shares at any time before the first anniversary of Admission and, for the 12 months thereafter they will not (and will procure that their respective connected persons will not) sell or dispose of any of their respective interests in Ordinary Shares except through Noble and/or Numis.

1.3 Dealing arrangements

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. Admission is expected to take place and dealings in the Ordinary Shares are expected to commence on AIM at 8.00 am on 20 December 2007.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Articles permit the holding and transfer of Ordinary Shares under CREST. The Directors have applied for the Ordinary Shares to be admitted to CREST, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred and CREST has agreed to such admission. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain a share certificate will be entitled to do so.

It is expected that definitive share certificates will be despatched by first class post to those shareholders whose entitlements are to be dealt with outside CREST at the risk of the person entitled thereto by 31 December 2007 or as soon thereafter as is practicable and that the CREST accounts in respect of those shareholders who have requested that their entitlements are dealt with inside CREST will be credited on or before 20 December 2007.

PART IV

RISK FACTORS

An investment in the Ordinary Shares is subject to a number of risks and uncertainties. Accordingly, prospective investors should consider carefully all of the information set out in this document and the risks attaching to an investment in Randall & Quilter, including, in particular, the risks described below, prior to making any investment decision concerning the Ordinary Shares.

The information below does not purport to be an exhaustive list or summary of the risks which Randall & Quilter may encounter and is not set out in any particular order of priority. Investors and prospective investors should consider carefully whether an investment in Randall & Quilter is suitable for them in light of the information in this document and the financial resources available to them.

Randall & Quilter's business, financial condition or operating results could be materially and adversely affected by any of the risks described below. In such circumstances, the market price of the Ordinary Shares may decline and investors may lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse effect on Randall & Quilter business, financial condition and results of operations.

1. Risks relating to the Group and its industry

1.1 *Influence of significant shareholders*

Upon completion of the Placing, Ken Randall and his family will own approximately 44.1 per cent. of the Ordinary Shares. As a result, Ken Randall could exercise significant influence over matters requiring shareholder approval, which, amongst other things, could delay or prevent an outside party from acquiring or merging with the Group, which may reduce the market price of the Ordinary Shares.

1.2 *Reliance on key personnel*

The Group's future success will be substantially dependent on the continued services and performance of its Executive Directors and senior management and its ability to continue to attract and retain highly skilled and qualified personnel, including personnel required by the Group to organise, plan and negotiate commutations (which forms an important part of the Group's strategy in managing run-off businesses). The Directors cannot give assurances that members of the senior management team or the Executive Directors will continue to remain with the Group or that it will be able to attract personnel of a sufficiently high calibre to meet the Group's recruitment needs.

1.3 *Competition*

The Group operates in a competitive environment and faces competition from current and potential competitors. The Group may not be able to compete effectively with such competitors.

1.4 *The Group may not achieve its targeted internal rate of return*

The Group operates insurance companies in run-off and acquires reinsurance receivables and other receivables at a discount to their net asset value. For such transactions, the Group targets an internal rate of return in excess of 20 per cent. Such targeted returns do not constitute a guarantee of future performance by the Group, a profit or earnings forecasts or a projection. The Group's actual returns may be significantly lower than those anticipated.

1.5 *If insured losses exceed the claims reserves of insurance companies owned by the Group, the financial condition and results of operations of the Group could be significantly adversely affected*

To the extent insured losses exceed any Insurance Company's claim reserve, that company will be required to recognise the reserve deterioration. This could cause a material increase in the Insurance Company Division's liabilities, a reduction in its profitability, and, potentially, reduced capital. This

would reduce the scope for future releases of surplus assets from the Insurance Company Division and the potential for the return of cash to Shareholders in addition to normal dividends.

The Group Insurance Companies are each, and future potential portfolios acquired will each be, required to maintain provisions to cover their estimated ultimate liability for claims. The claims provisions will be for the gross claims and related reinsurance recoveries. Gross claims will include reported and unreported claims incurred at the end of the accounting period. Gross claims will include an allowance for expenses involved in settling losses. In addition, gross claims will include provisions for claims handling costs in so far as they exceed the estimated future investment income. Claims handling costs include the general cost of running the business of each Group Insurance Company or portfolio until it is fully run-off. These gross claims provisions will be estimated using actuarial and statistical projections from the actual provisions included in the group's financial statements.

In principle, if the Group Insurance Companies' claim reserves are determined to be inadequate after taking into account outwards reinsurance coverage, they will be required to increase claim reserves at the time of such determination with a corresponding reduction in the Group Insurance Companies' net earnings in the period in which the deficiency is rectified. This could have a material adverse effect on the Insurance Company Division. In addition, claim reserves may prove to be inadequate in the event that outwards reinsurance was to become uncollectable. Higher than expected losses may have an adverse impact on the Group Insurance Companies' regulatory capital adequacy calculations.

Provisions for reinsurance recoveries will be estimated using the gross claims provisions as the starting point. Consequently the estimates are subject to the same uncertainties as the estimates of gross claims. In addition assessments are required of each reinsurer's ability to meet its obligations to the company extending some years into the future. There are also risks of coverage and other disputes with reinsurers.

1.6 ***Contingent liabilities exist in relation to two of the Group's subsidiaries***

Each of the Group Insurance Companies operates financially on a standalone basis. The Group's stated policy is that it bears no financial responsibility for any obligations or liabilities of any Group Insurance Company. There are two exceptions to this stated policy:

- R&Q Re (UK) and the Company entered into an assignment, assumption and indemnity agreement to counter-indemnify the ACE Group in respect of two guarantees given by ACE in favour of the ILU for certain policies written by R&Q Re (UK). This counter-indemnity is unlimited in amount.
- As a condition of the acquisition of Chevanstell, the Company entered into a deed of indemnity with Tryg Forsikring to counter-indemnify it in respect of four guarantees given in respect of certain policies written by Chevanstell. The aggregate limit of this indemnity is £9 million.

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

1.7 ***Potential acquisitions may not be available***

Future acquisitions by the Group are expected to be funded through issuing equity, secondary fundraising through the placing of equity or debt and cash generated internally, or a combination of these. The Group has previously made eight acquisitions and the Directors expect to continue to make such acquisitions. There is no guarantee, however, that there will be any potential acquisitions in the future which meet the Group's criteria.

Further, the insurance run-off industry is competitive. Existing and new competitors may compete with the Group in identifying, assessing and acquiring future run-off companies and businesses, resulting in the Group either being unable to acquire such run-off companies and/or businesses, or only acquiring them at a higher price than the current targets allow, therefore impacting on the Group's growth and profitability.

The acquisition of insurance companies, businesses or portfolios will normally require the approval of the relevant regulator, in respect of, not only the Group, but also of its controllers and potentially the Group's directors and officers. There is no guarantee that the relevant regulators will provide such approval or that the conditions on which the regulators will grant such approval will be acceptable.

1.8 *Future acquisitions will carry risks*

The Group may acquire other run-off insurance companies and portfolios of policies if appropriate opportunities become available. Any future acquisition, due to its nature as a run-off business, may have unanticipated litigation or a level of claims against which the Group may have no effective or full redress against the vendors of the company or portfolio of policies, or have much leeway in managing or settling. There may also be integration costs as a result of the acquisition, including potential redundancy related costs. Also, the Group may be unable to manage the run-off of the acquired company or portfolio of policies in accordance with the projections modelled by the Group at the time of the acquisition. Further, any acquisitions may significantly affect the Group's results or operations because the acquisitions will require the attention of the Group's management and may require the diversion of other resources. The negotiation of potential acquisitions as well as the integration of an acquired insurance company or portfolio of policies could result in a substantial diversion of management resources, due to the numerous additional risks such as potential losses from unanticipated litigation or levels of claims or an inability to generate sufficient earnings to offset acquisition costs and financial exposures. Further, any future acquisitions may expose the Group to operational challenges and risks, including:

- cash flow shortages for any reason (including if anticipated earnings are not realised or are delayed, whether by general economic or market conditions or unforeseen internal difficulties, or if expenses are greater than anticipated), particularly since the acquisitions will not be writing new business;
- the value of assets being lower than expected or diminishing because of credit defaults or changes in interest rates, or liabilities assumed being greater than expected;
- integrating financial and operational reporting systems;
- establishing satisfactory budgetary and other financial controls;
- increasing capital needs and overhead expenses;
- obtaining and retaining management personnel required for expanded operations; and
- the assets and liabilities acquired may be subject to foreign currency exchange rate fluctuations.

If the Group failed to manage appropriately the run-off of the acquisitions or these operational challenges and risks arising from these acquisitions, there might be a material adverse effect on its business, financial condition or results of operations. No assurance can be given that the Group will be able to manage future acquisitions profitably or to integrate such acquisitions successfully without substantial costs, delays or other problems.

1.9 *The Group Insurance Companies reinsurance may not be adequate for all circumstances*

The Group Insurance Companies, as well as any insurance companies in run-off acquired in the future, may mitigate exposure inherent in their businesses by reinsuring with other insurance companies a portion of the risks under the run-off businesses. These reinsurance arrangements should protect the Group Insurance Companies against the severity of losses on individual claims and unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss. There can be no assurance that the Group Insurance Companies' outwards reinsurance protection will be sufficient for all eventualities.

Although reinsurance will not discharge the Group Insurance Companies or future acquisitions from their primary obligation to pay under an insurance policy for losses insured, or under a reinsurance agreement for losses assumed, reinsurance does make the reinsurer liable to the Group Insurance Companies for the reinsured portion of the risk. Collectability of reinsurance is dependent upon the solvency of reinsurers and their willingness to make payments under the terms of reinsurance agreements. A reinsurer's insolvency, inability or unwillingness to make payments under the terms of a reinsurance arrangement could have a material effect on the Group Insurance Companies. To the extent any of the above adverse effects on the Group Insurance Companies trigger any guarantees given by the Company, which exist for R&Q Re (UK) and Chevanstell such effects could also affect the Group.

1.10 ***The Insurance Services Division may not be able to win new contracts or may lose existing contracts***

The Insurance Services Division operates within a competitive market and may not be able to win third party contracts to manage insurance run-offs, or may not be able to do so on acceptable terms. Additionally, its ability to win new business in the form of contracts to manage Group Insurance Companies is contingent on the Group's ability to acquire insurance companies in run-off on acceptable terms. Existing contracts for run-off business are subject to provisions within such contracts which may permit early termination under certain circumstances.

1.11 ***The Liquidity Management Division may be unable to acquire assets***

The Liquidity Management Division is dependent on its ability to acquire suitable reinsurance receivables on an acceptable basis, whether on a recourse or non-recourse basis. This market is undeveloped and no guarantees can be provided that it will expand as the Directors anticipate or that the Group will remain competitive within it.

1.12 ***Regulatory risks***

The insurance industry is heavily regulated in most jurisdictions. All of the insurance companies owned by the Group, except for R&Q Re Belgium, are subject to the insurance regulatory system in the jurisdictions in which they operate. These companies, and any future acquisitions by the Group, may not be able to maintain the necessary licences, permits, authorisations or accreditations in jurisdictions in which they currently engage in business or may be able to do so only at significant cost.

In addition, the Group may not be able to comply with, or obtain appropriate exemptions from, the wide variety of laws and regulations applicable to insurance operations or holding companies. Failure to comply with or to obtain appropriate authorisations and/or exemptions under any applicable laws could result in restrictions on the Group's ability to do business or to engage in certain activities as are regulated in one or more of the jurisdictions in which it operates and could subject the Group to fines or other sanctions, which could have a material adverse effect on the Group's business. In addition, changes in the laws and regulations to which the Group's insurance operations are subject could have a material adverse affect on the Group's business (for example, the Group Insurance Companies' and any other regulated member of the Group's future capital requirements may change due to changes in the regulatory regime).

The Group's insurance operations in the United Kingdom are subject to authorisation from the FSA. As FSA authorised companies, these operations will be subject to close supervision by the FSA. Changes in the FSA's requirements from time to time may have an adverse impact on the business of the Group. Cost of compliance could increase if there are changes to the regulatory regime. Similar considerations apply in relation to the Group insurance operations in the US, which are regulated by the states of Ohio and Pennsylvania.

Given that the framework for supervision of insurance business and mediation in the United Kingdom must comply with EU directives (which are implemented by EU member states through national legislation), changes at the EU level may affect the regulatory regime under which the Group will operate. Currently there is a review of insurance directives known as 'Solvency II' and the end result

of this review may lead to changes such as increased or risk based minimum capital requirements though these are not expected to be introduced until 2012. There can be no assurance that the implementation of Solvency II will not have an adverse effect on the operations of the Group.

The acquisition of insurance companies and, in some cases, portfolios of business is also subject to regulatory control in the UK, the US, Bermuda and most other jurisdictions. Regulatory review will focus on the financial strength, management capability and integrity of the acquiring company and the impact of the proposed transaction on the policyholders of the target company. Powers of regulators are largely discretionary as to such approval. It is therefore possible that one or more regulators may not approve further acquisitions, thereby curtailing the growth of Randall & Quilter's business.

Given the Group Insurance Companies and any future acquisitions may have previously operated in jurisdictions other than the UK and the US, changes in the insurance supervisory frameworks in those countries may, in the future, affect the Group Insurance Companies or any companies acquired that operate in jurisdictions other than the UK and the US.

In the future, the Group will prepare its financial statements in accordance with IFRS adopted for use in the European Union. From time to time the International Accounting Standards Board ("IASB") amends IFRS and issues new IFRS and accounting interpretations. These changes may affect the way that transactions are measured and reported in the financial statements. In particular, currently IFRS are limited in specifying full insurance-specific guidelines to the requirements of IFRS 4 "Insurance contracts" pending completion of the second phase of the IASB's project on accounting for insurance contracts. In May 2007 the IASB published a discussion paper "Preliminary views on insurance contracts", which presented the IASB's preliminary views on the main components of an accounting model for insurance contracts. If these preliminary views become an IFRS at some future date, insurance contracts would be reported in the financial statements in accordance with a different basis of measurement which might change the reported profit for the period.

1.13 *Exposure to litigation*

The extent and complexity of the legal and regulatory environment in which the Group operates and the products and services the Group offers mean that many aspects of the business involve substantial risks of liability. Any litigation brought against the Group in the future could have a material adverse effect on the Group and litigation brought against specific Group Insurance Companies may have a material adverse effect on those specific companies. The Group's insurance and/or the insurances of specific companies within the Insurance Company Division may not necessarily cover any of the claims that policyholders, clients or others may bring against the Group or specific company, or may not be adequate to protect them against all the liability that may be imposed.

In addition, litigation may have a material adverse effect upon the Group's business in that legal decisions between third parties may expand the apparent scope of legal liabilities, which in turn could increase the amount of claims which have to be paid by the Group, thereby reducing profits.

The Group's liabilities include insurance (as opposed to reinsurance) contracts with parties in the US. In many US jurisdictions, an insurer's conduct relating to an insurance policy can result in tort liability, and in practice any dispute between an insurer and its policyholder over the coverage provided can result in allegations of "bad faith" and an assertion of tort liability as well as, in some jurisdictions, an assertion of damages under statutes relating to claims handling. Thus, in the ordinary course of business the Group Insurance Companies are exposed to potential tort claims including claims for punitive or exemplary damages that could have a materially adverse effect on profitability.

The Group is pursuing litigation against third parties and is subject to litigation by third parties in the normal course of business and the probable outcome of all such litigation is taken into account in compiling the Group's liabilities. If the outcome or costs (including potential accrued interest costs) of such litigation is incorrectly estimated, the Group's results could be negatively affected.

In August 2007, Seaton Insurance Company ("Seaton") and Stonewall Insurance Company ("Stonewall") filed a complaint in New York (the "Complaint") against (i) Cavell USA, Inc. ("Cavell

USA”), a wholly owned subsidiary of the Company and (ii) Ken Randall. The allegations in the Complaint arise from run-off management agreements between Cavell USA and Seaton and Stonewall respectively (the “Run-Off Management Agreements”). The Run-Off Management Agreements were terminated with effect from 31 March 2006 by mutual consent through a term sheet entered into in February 2006. The Complaint alleges fraudulent misrepresentation and concealment against Cavell USA and Ken Randall (as those expressions are understood in the US). The Complaint further alleges that Cavell USA and Ken Randall’s misrepresentations and concealment comprise unfair and deceptive acts and practices in trade or commerce in breach of Massachusetts statute. Under the Complaint, Seaton and Stonewall are claiming significant unquantified sums from Cavell USA and Ken Randall. Cavell USA and Ken Randall are strongly contesting the claim. All of the Directors believe the Complaint to be vexatious and without merit and, having taken appropriate US and UK legal advice (including from Leading Counsel), are satisfied that Cavell USA and Ken Randall are unlikely to have any liability for the amounts claimed.

1.14 *Commutations and accelerated run-offs may not be possible*

A major element of the Group’s proposed operations is for the Group Insurance Companies to enter into commutations with its policyholders, thereby allowing them to accelerate the run-off process. However, changes in market conditions (such as the availability of insurance from other insurers, and developments which may increase the policyholder’s perception that it should retain the cover rather than commute the cover) may result in policyholders being reluctant to enter into commutations at all or on terms which are unfavourable to the Group Insurance Companies. The inability to commute policies successfully on favourable terms due to changes in market conditions could adversely affect the Group’s profits, and its ability to accelerate the run-off and extract capital from the businesses and the operations of the Group Insurance Companies. Furthermore, the terms of any reinsurance contracts may impose constraints on the extent to which claims may be settled or commuted without the reinsurer’s consent. Such consent may not be forthcoming.

1.15 *The Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms*

Future acquisitions by the Group are expected to be funded through a mixture of issuing equity, secondary fundraisings through the placing of equity, debt and the utilising of future cash reserves that are generated through the successful management of and final cash flow extracted from the Company’s run-off entities. Any equity or debt financing, if available at all, may be on terms that are not favourable to the Group or not acceptable to a regulator whose approval would be required for the transaction. In the case of equity financings, dilution to Shareholders would result, and in any case such securities may have rights, preferences and privileges that are senior to those of the Ordinary Shares. If the Group cannot obtain adequate capital on favourable terms or at all, its business, financial condition or operating results could be adversely affected and the Group may have to curtail its plans for further acquisitions.

1.16 *Solvent schemes of arrangement may not be available*

One of the methods by which a run-off company can exit and achieve finality in respect of its run-off business, is the legal process in the UK called solvent schemes of arrangement under section 425 of the Act. Solvent schemes of arrangement give insurers the ability to conclude their run-off business by making a one-off full and final settlement of their liabilities with all of their creditors and policyholders and have been popular among insurers and reinsurers incorporated or managed in the UK.

The legal process of solvent schemes of arrangements requires the sanction of the court and the consent of the majority in number of those who voted, representing at least 75 per cent. by value of the company’s creditors’ claims. The Group is vulnerable to changes in the law relating to solvent schemes of arrangement (which are outside its control) such as their continued availability, their legal requirements, the time taken to complete schemes of arrangement and the costs involved. There may also be resistance to such schemes by the creditors of the company proposing the scheme. The legal

requirements in obtaining such creditors' consent to the scheme has recently come under increased scrutiny by the courts in the UK and insurance companies seeking solvent schemes of arrangement now have to take particular care in drafting the schemes to fit the circumstances of the company and its creditors than was previously the case. Furthermore, insurance solvency statutes in the US generally do not recognise solvent schemes of arrangement, which would pose a risk to the Group's ability to achieve finality in its US run-off business.

The Group's inability to achieve finality in its run-off businesses through solvent schemes of arrangement, or any changes in the costs or time required to conduct solvent schemes of arrangement, may reduce the Groups flexibility in extracting surplus capital from its Group Insurance Companies.

1.17 *Capital reductions may not be possible*

One method by which companies may return value to investors has been by undertaking a court approved capital reduction to create distributable reserves pursuant to section 135 of the Act. Upon obtaining court confirmation of the reduction in capital, the distributable reserves could, subject to the approval of the relevant regulator, then be distributed to the shareholders by way of dividend.

Whilst procedural, a capital reduction requires the approval of at least 75 per cent. of the relevant classes of shareholders and creditors of the company together with a court confirmation. Shareholders and creditors to the company have the right to object to the capital reduction, pursuant to which the court may withhold confirmation or require specific steps to be taken to safeguard the interests of the specific creditors, a group or groups of creditors or the creditors generally. Further, to the extent that the relevant company undertaking the capital reduction is authorised by the FSA or any other regulator, then the company will need to ensure that the capital reduction does not detrimentally impact on its authorisation by the FSA or the relevant regulator and, in some cases, regulatory approval may also be required. Therefore, the extent to which the Group is unable to undertake a capital reduction in respect of the Group Insurance Companies, may reduce the Group's flexibility in extracting surplus capital from such companies.

1.18 *Part VII transfers may not be available*

One method through which the Group Insurance Companies can acquire, dispose of or transfer run-off businesses to third parties or intra-group is the legal process known as a Part VII transfer under Part VII of the FSMA. Part VII transfers, which require the sanction of the court, allow an insurer or reinsurer to transfer all or part of its insurance business to another company (thereby allowing a company to dispose of and exit any particular part of its business, such as a run-off business), but are also used in group restructurings, whereby the group can consolidate the businesses conducted by its various members by transferring portfolios of policies from one group member to another.

The Group is vulnerable to changes in the law relating to Part VII transfers, such as their continued availability, their legal requirements, the time taken to complete Part VII transfers and the costs involved (all of which are outside the Group's control). The Group is also vulnerable to the extent Part VII transfers are not recognised in jurisdictions outside the EEA. Under the European insurance directives, all members of the EEA will recognise a Part VII transfer sanctioned by the High Court of England and Wales. However, to the extent the Group Insurance Companies have policies which are not governed by the laws of an EEA State, then it is currently unclear from previous English courts judgements whether policyholders of such policies may contest the effect of the Part VII transfer in the courts of the country whose law is the policy's governing law. There is growing discontent and desire by US policyholders to challenge the validity of Part VII transfers, especially where the governing law of the policies is of a State in the US.

1.19 *Control systems may prove inadequate*

The Group has in place what it believes are appropriate claims, reserving and financial and management controls, as well as what it believes are appropriate protections against detrimental activities such as fraud, theft, misuse of funds, money laundering or other unauthorised or criminal activities. Nevertheless, such systems may prove inadequate. In the event that such controls fail or the

Group is subject to such detrimental activities and such protections prove inadequate, this may lead to a material adverse effect on the Group.

1.20 ***Emerging claim and coverage issues***

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the adequacy of the Group Insurance Companies' provision for losses and loss adjustment expenses by either extending coverage beyond the intent of insurance policies envisioned at the time they were written, or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after the Group acquires the companies or portfolios of insurance contracts that are affected by the changes. As a result, the full extent of liability under these insurance contracts may not be known for many years after a contract has been issued.

1.21 ***General economic climate and natural disasters***

The markets in which the Group operates are directly affected by many national and international factors that are beyond its control. Any one of the following factors, among others, may cause a substantial decline in the financial markets in which the Group operates: legislative, legal and regulatory changes; economic and political conditions in the UK, continental Europe, the US and elsewhere in the world; changes in the supply and demand of capital, industrial disruption, concerns about terrorism and war; the level and volatility of equity, property and commodity markets; the level and volatility of interest rates and foreign currency exchange rates and concerns over inflation and changes in institutional and consumer confidence levels. In recent years, the financial markets have been adversely affected by acts of war, terrorism and other armed hostilities. They have also been affected by natural disasters. Uncertain economic prospects or declines in investment markets for the foregoing reasons could adversely affect the operations, business and profitability of the Group.

1.22 ***The terms of credit facilities available to the Group may impose restrictions on operations, and may restrict growth, result in a competitive disadvantage or adversely affect its ability to conduct business***

The terms of credit facilities available from time to time to the Group may contain operating and financial covenants. Any such covenants may reduce the Group's flexibility to respond to changing business and economic conditions, including increased competition in the insurance industry, and/or may prevent the Group from expanding the business.

1.23 ***Loss of business reputation or negative publicity***

The Group operates in an industry where integrity and customer trust and confidence are paramount. Accordingly any negative publicity (whether well founded or not) associated with the business or operations of the Group could result in a loss of business and make it more difficult to obtain the requisite regulatory approvals. Accordingly, any mismanagement, business failure resulting in insolvency, fraud or failure to satisfy fiduciary responsibilities, or the negative publicity resulting from such activities or any allegation of such activities, could have a material adverse effect on the Group.

1.24 ***Exposure to coverage disputes***

There can be no assurance that various provisions of the Group owned insurance companies' insurance policy forms and reinsurance contracts, such as limitations on, or exclusions from, coverage, will be enforceable in the manner anticipated. Disputes relating to coverage, bad faith and choice of legal forum can be expected to arise, as a result of which the Group may incur losses beyond those that it contemplated would be incurred pursuant to its insurance policies.

1.25 ***Investment performance will affect the profitability and solvency position of the Group***

The Group Insurance Companies will hold significant investments to support their liabilities and their earnings will be affected by the returns achieved on their investment portfolios. Therefore despite the Group's asset and liability management strategies, changes in interest rates, credit ratings and other

economic variables could substantially affect the Group's profitability. The capital value of the Group's investments may fall as well as rise and the income derived from them may fluctuate. A fall in such capital values may adversely affect the Group's solvency position.

1.26 *Industry wide developments could adversely affect the Group's business*

The availability and price of insurance coverage and the number and nature of insurance companies entering run-off have been affected in the past by industry wide factors such as asbestos and environmental liability claims, other liability claims such as directors' and officers' liability and medical malpractice, stock market performance, interest rates, the US terror attacks in 2001 and hurricanes Katrina, Rita and Wilma in 2005. Similar or new industry wide factors in future may result in changes in market conditions or governmental intervention in the insurance markets, especially in the US, which may affect the ability of the Group to obtain suitable run-off reinsurance protection or potential businesses or companies for acquisition.

1.27 *Currency fluctuations*

The Group will have businesses with funds, assets, investments and liabilities denominated in currencies other than sterling and may, from time to time, experience losses resulting from fluctuations in the values of euros and other non-UK currencies, which could adversely affect its operating results. Where possible, the Group manages the impact of this risk by broadly matching the currency of assets and liabilities.

1.28 *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.

1.29 *Forward-looking statements*

This document includes certain forward-looking statements, which can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "projects", "expects", "intends", "may", "will", "seeks" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions and include the statements on target internal rate of return contained herein. These forward-looking statements relate to matters that are not historical facts and include statements regarding the Company and its subsidiaries and its directors' current intentions, beliefs or expectations concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not an assurance of future performance. The Group's actual results of operations, financial condition and liquidity, and the development of the business sector in which the Group operates, may differ materially from those suggested by the forward-looking statements contained in this document. Therefore, even if the Group's results of operations, financial condition and liquidity, and the development of the industry in which the Group operates, are consistent with the forward-looking statements contained in the document, there can be no assurance that those results or developments will prove to have been indicative of results or developments in subsequent periods.

All forward-looking statements in this document rely on a number of assumptions concerning future events and are subject to a number of uncertainties and other factors, many of which are outside the Company's control that could cause actual results to differ materially from such statements. Other than in accordance with the Group's obligations under the AIM Rules, the Company undertakes no

obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

2. Risks relating to the Placing

2.1 *Investment in AIM traded securities, share price volatility and liquidity*

Investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the Official List. AIM has been in existence since June 1995 but its future success and liquidity in the market for the Company's securities cannot be guaranteed. It is possible that an active trading market may not develop and continue upon completion of the Placing. Even if an active trading market develops, the market price for the Placing Shares may fall below the Placing Price. As a result of fluctuations in the market price of the Ordinary Shares, investors may not be able to sell their Ordinary Shares at or above the Placing Price, or at all. Investors may therefore realise less than, or lose all of, their investment.

The price at which the Ordinary Shares are quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Group and its operations and some which may affect the quoted insurance sector or quoted companies generally and which are outside the Group's control. These factors could include the performance of the Group, large purchases or sales of the Ordinary Shares, legislative changes in the insurance industry, general economic, political or regulatory conditions, or changes in market sentiment towards the Ordinary Shares.

The results of the Group may fluctuate significantly as a result of a variety of factors, many of which may be outside the Group's control. Period to period comparisons of the Group's results may not be meaningful and investors should not rely on them as indications of the Group's future performance. The Group's results may fall below the expectations of securities analysts and investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to the Group's operating performance. Any of these events could result in a decline in the market price of the Ordinary Shares.

Publicly traded securities, from time to time, experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, many of which are beyond the Group's control, including: variations in operating results in Randall & Quilter's reporting periods; changes in market valuation of similar companies; announcements by the Group of significant contracts, acquisitions, strategic alliances, joint ventures or capital commitments; loss of a major customer; the inability to secure an adequate supply of raw materials from suppliers in a timely fashion; additions or departures of key personnel; any shortfall in revenues or net income or any increase in losses from levels expected by securities analysts; future issues or sales of Ordinary Shares; and stock market price and volume fluctuations, which are particularly common with respect to the securities of similar companies. Any of these events could result in a material decline in the price of the Ordinary Shares.

2.2 *No prior public market*

Prior to Admission there has been no public trading market for the Ordinary Shares. Although Randall & Quilter has applied to the London Stock Exchange for admission to trading on AIM, it can give no assurance that an active trading market for the Ordinary Shares will develop or, if developed, be sustained following the closing of the Placing. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected.

2.3 *A change of control of the Company, or any intermediate holding company, may be difficult to effect under applicable insurance laws*

Under FSMA, any person proposing to acquire "control" (defined to be a holding greater than or equal to 10 per cent. of the voting rights) over a UK authorised person must give prior notification to the FSA of his intention to do so. The FSA has three months to consider that person's application to

acquire “control”. In considering whether to approve such application, the FSA must be satisfied that both the acquirer is a fit and proper person to have such “control” and that the interests of consumers would not be threatened by such acquisition of “control”. Failure to make the relevant prior application could result in action being taken against the Company by the FSA. It could also result in criminal sanctions being applied to the proposed controller, and restrictions on the exercise of rights connected to the acquired shares, and an order for the sale or transfer of the improperly acquired shares. Similar considerations may apply in respect of the Group’s regulated interests in other jurisdictions including the US, which are regulated by the states of Ohio and Pennsylvania. Restrictions have been inserted into the Articles in relation to these changes of control issues, details of which are set out in paragraph 4 of Part IX.

2.4 *Market risk – the value of Ordinary Shares may go down as well as up*

Following Admission, it is likely that the Company’s share price will fluctuate and may not always accurately reflect the underlying value of the business. The value of Ordinary Shares may go down as well as up and investors may lose some or all of the original sum invested. The price that investors may realise for their holdings of Ordinary Shares, when they are able to do so, may be influenced by a large number of factors, some of which are specific to the Company and others of which are extraneous. Such factors may include the possibility that the market for the Ordinary Shares will be less liquid than for other equity securities and that the price of the Ordinary Shares will be relatively volatile.

2.5 *Future sales of Ordinary Shares may affect their market price*

The Company is unable to predict whether substantial amounts of Ordinary Shares will be sold in the open market following completion of the Placing and Admission. Any sales of substantial amounts of Ordinary Shares in the public market, the perception that such sales might occur, or the potential issue of further equity could materially adversely affect the market price of the Ordinary Shares.

2.6 *Holding company structure and restrictions on dividends*

The Company is a holding company and it is not currently envisaged that it will conduct run-off operations of its own. Dividends from subsidiaries, together with any investment income, are expected to be the Company’s main source of funds to pay expenses and dividends, if any.

All dividends will be subject to the future financial performance of the Group including results of operations and cash flows, the Group’s financial position and capital requirements, general business conditions, legal, tax, regulatory (particularly relating to capital requirements) and any contractual restrictions on the payment of dividends and any other factors the Directors deem relevant in their discretion, which will be taken into account at the time. Accordingly, it is uncertain when dividends will be declared by the Company to its Shareholders and such dividends will be at the discretion of the Board. The dividend policy mentioned in Part II of this document should not be construed as a dividend forecast.

The members of the Group other than the Company may from time to time be subject to restrictions on their ability to make distributions to the Company, as a result of a number of factors including lack of distributable reserves, restrictive covenants contained within loan agreements, regulatory, fiscal or other restrictions. There can be no assurance that such restrictions will not have a material adverse effect on the Group’s results or financial condition. All or any of these requirements may affect the ability of the Group to pay a dividend.

2.7 *Risks relating to tax*

Any change in the Group’s tax status or in taxation legislation could affect the Group’s ability to provide returns to Shareholders.

Statements in this document concerning the taxation of investors in Ordinary Shares are based on current UK tax law and practice which is subject to change. The taxation of an investment in the Group depends on the individual circumstances of investors.

AN INVESTMENT IN RANDALL & QUILTER MAY NOT BE SUITABLE FOR ALL RECIPIENTS OF THIS DOCUMENT. POTENTIAL INVESTORS ARE ACCORDINGLY ADVISED TO CONSULT A PERSON AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 WHO SPECIALISES IN INVESTMENTS OF THIS KIND BEFORE MAKING A DECISION.

PART V

ACCOUNTANT'S REPORT ON RANDALL & QUILTER INVESTMENT HOLDINGS PLC

The following is the text of a report received from CLB Littlejohn Frazer, reporting accountants:

CLB LITTLEJOHN FRAZER
Chartered Accountants

The Directors
Randall & Quilter Investment Holdings plc
9-13 Fenchurch Buildings
London
EC3M 5HR

The Directors
Noble & Company Limited
120 Old Broad Street
London
EC2N 1AR

The Directors
Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

13 December 2007

Dear Sirs

RANDALL & QUILTER INVESTMENT HOLDINGS PLC

We report on the financial information set out below relating to Randall & Quilter Investment Holdings plc (“the Company”) and its subsidiary undertakings (together “the Group”). This information has been prepared for inclusion in the AIM admission document dated 13 December 2007 (the “Admission Document”) relating to the proposed admission to AIM of the Company and is given for the purpose of complying with Schedule Two of the AIM Rules and for no other purpose.

Responsibility

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in the notes to the financial information and in accordance with the financial reporting framework.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Save for any responsibility arising under Schedule Two of the AIM Rules to any person as and to the extent provided, and save for any responsibility that we have expressly agreed in writing to assume, to the fullest extent permitted by law we do not assume responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules, consenting to its inclusion in the Admission Document.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Group, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document dated 13 December 2007, a true and fair view of the state of affairs of the Group as at 30 September 2007 and 31 December 2004, 2005 and 2006, and of its results, cash flows and changes in equity for the periods then ended and the period ended 30 September 2006 in accordance with the basis of preparation and with the applicable financial reporting framework as described in note 2.

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 information. 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.

Declaration

For the purposes of Paragraph a of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

CLB Littlejohn Frazer
Reporting Accountants

CONSOLIDATED INCOME STATEMENT

| | Note | 9 months ended 30 September | | Year ended 31 December | | |
|-------------------------------------------------------------------------------------------------------------|------|--------------------------------|-----------------|---------------------------|-----------------|-----------------|
| | | 2007 £'000 | 2006 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
| Gross premium written | 5 | 818 | 89 | 290 | – | 15 |
| Reinsurers' share of gross premiums | | 112 | (5) | (46) | – | (15) |
| Earned premium net of reinsurance | | <u>930</u> | <u>84</u> | <u>244</u> | <u>–</u> | <u>–</u> |
| Net investment income | 6 | 11,306 | 4,668 | 7,153 | 529 | 1,049 |
| Other underwriting income | | 73 | 72 | – | – | – |
| Other income | 7 | 7,068 | 11,037 | 15,570 | 15,026 | 12,879 |
| | | <u>18,447</u> | <u>15,777</u> | <u>22,723</u> | <u>15,555</u> | <u>13,928</u> |
| Total income | | <u>19,377</u> | <u>15,861</u> | <u>22,967</u> | <u>15,555</u> | <u>13,928</u> |
| Gross claims paid | | (41,154) | (8,604) | (25,583) | (5,505) | 27 |
| Reinsurers' share of gross claims paid | | 21,943 | 2,761 | 11,079 | 2,207 | 117 |
| Claims paid, net of reinsurance | | <u>(19,211)</u> | <u>(5,843)</u> | <u>(14,504)</u> | <u>(3,298)</u> | <u>144</u> |
| Movement in gross technical provisions | | 47,506 | 16,129 | 29,063 | (846) | (401) |
| Movement in reinsurer's share of technical provisions | | (27,745) | (7,313) | (10,583) | 4,986 | (60) |
| Net change in provision for claims | | <u>19,761</u> | <u>8,816</u> | <u>18,480</u> | <u>4,140</u> | <u>(461)</u> |
| Net insurance claims incurred | | <u>550</u> | <u>2,973</u> | <u>3,976</u> | <u>842</u> | <u>(317)</u> |
| Operating expenses | 8 | <u>(14,780)</u> | <u>(14,472)</u> | <u>(21,753)</u> | <u>(16,114)</u> | <u>(14,409)</u> |
| Result of operating activities before negative goodwill and impairment of intangible assets | | <u>5,147</u> | <u>4,362</u> | <u>5,190</u> | <u>283</u> | <u>(798)</u> |
| Negative goodwill | | – | 13,187 | 35,958 | – | 8,215 |
| Impairment of intangible assets | | – | (1,335) | (1,324) | – | – |
| Result of operating activities | | <u>5,147</u> | <u>16,214</u> | <u>39,824</u> | <u>283</u> | <u>7,417</u> |
| Finance costs | 9 | (1,362) | (587) | (748) | (132) | (18) |
| Profit on ordinary activities before income taxes | 10 | <u>3,785</u> | <u>15,627</u> | <u>39,076</u> | <u>151</u> | <u>7,399</u> |
| Income tax credit/(expense) | 11 | 955 | 321 | 377 | 393 | (202) |
| Profit for the period | | <u>4,740</u> | <u>15,948</u> | <u>39,453</u> | <u>544</u> | <u>7,197</u> |
| Attributable to equity holders of the parent | | | | | | |
| Attributable to ordinary shareholders | | 4,232 | 15,147 | 38,100 | (453) | 7,028 |
| Attributable to Preference C shareholders | | 476 | 763 | 1,306 | 769 | – |
| | | <u>4,708</u> | <u>15,910</u> | <u>39,406</u> | <u>316</u> | <u>7,028</u> |
| Minority interests | | 32 | 38 | 47 | 228 | 169 |
| | | <u>4,740</u> | <u>15,948</u> | <u>39,453</u> | <u>544</u> | <u>7,197</u> |
| Earnings per ordinary share for the profit/(loss) attributable to the ordinary shareholders of the Company: | | | | | | |
| Basic and diluted | 12 | <u>8.5p</u> | <u>30.3p</u> | <u>76.2p</u> | <u>(0.9)p</u> | <u>14.1p</u> |

CONSOLIDATED BALANCE SHEET

| | | <i>30 Sept</i> | <i>31 Dec</i> | <i>31 Dec</i> | <i>31 Dec</i> |
|--------------------------------------------------------|-------------|----------------|----------------|----------------|----------------|
| | | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| Assets | <i>Note</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Intangible assets | 14 | 11,982 | 11,986 | 2,249 | 2,373 |
| Property, plant and equipment | 15 | 215 | 292 | 373 | 345 |
| Investment properties | 16(a) | 1,022 | 996 | 2,332 | 2,110 |
| Financial assets | | | | | |
| – Investments | 16(b) | 222,928 | 235,729 | 13,532 | 15,082 |
| – Deposits with ceding undertakings | | 3,710 | 4,623 | – | – |
| Reinsurers' share of insurance liabilities | 22 | 248,456 | 286,673 | 97,280 | 84,281 |
| Corporation tax | 19 | 786 | – | – | – |
| Deferred tax asset | 23 | 4,143 | 3,082 | 272 | 679 |
| Insurance and other receivables | 17 | 35,823 | 33,495 | 14,271 | 15,135 |
| Cash and cash equivalents | 18 | 55,342 | 91,940 | 6,504 | 5,772 |
| Total assets | | <u>584,407</u> | <u>668,816</u> | <u>136,813</u> | <u>125,777</u> |
| Liabilities | | | | | |
| Insurance contract provisions | 22 | 480,200 | 543,504 | 105,173 | 92,808 |
| Pension benefit obligations | | – | – | 713 | 1,706 |
| Financial liabilities | | | | | |
| – Promissory note | 21 | – | 2,564 | – | – |
| – Preference shares | 21 | – | 116 | 250 | – |
| – Onerous lease provision | 21 | – | – | 197 | 316 |
| – Amounts owed to credit institutions | 21 | 14,748 | 11,959 | 555 | 368 |
| – Deposits received from reinsurers | | 6,557 | 6,857 | – | 955 |
| Deferred tax liabilities | 23 | 4,245 | 4,888 | 5,860 | 5,858 |
| Trade and other payables, including insurance payables | 20 | 23,630 | 47,310 | 10,464 | 11,986 |
| Current tax liabilities | 19 | – | – | 30 | 5 |
| Total liabilities | | <u>529,380</u> | <u>617,198</u> | <u>123,242</u> | <u>114,002</u> |
| Equity | | | | | |
| Share capital | 23/24 | – | – | – | – |
| Share premium account | 25 | 1,022 | 1,022 | – | – |
| Capital redemption reserve | 25 | 250 | 134 | – | – |
| Retained earnings | 25 | 53,721 | 50,460 | 13,011 | 11,318 |
| Attributable to equity holders of the parent | | <u>54,993</u> | <u>51,616</u> | <u>13,011</u> | <u>11,318</u> |
| Minority interests in subsidiary undertakings | | 34 | 2 | 560 | 457 |
| Total equity | | <u>55,027</u> | <u>51,618</u> | <u>13,571</u> | <u>11,775</u> |
| Total liabilities and equity | | <u>584,407</u> | <u>668,816</u> | <u>136,813</u> | <u>125,777</u> |

CASH FLOW STATEMENT

| | <i>30 September</i> | <i>31 December</i> | <i>31 December</i> | <i>31 December</i> |
|---------------------------------------------------------------|----------------------------|--------------------|--------------------|--------------------|
| | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| <i>Note</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Cash flows from operating activities | | | | |
| Profit before tax | 3,785 | 39,076 | 151 | 7,399 |
| Finance costs | 1,362 | 748 | 132 | 18 |
| Depreciation | 167 | 219 | 234 | 167 |
| Amortisation of intangible assets | 4 | 1 | 240 | 59 |
| Negative goodwill | – | (35,958) | – | (8,215) |
| Impairment of intangible assets | – | 1,328 | – | – |
| Fair value loss/(gain) on financial assets | (571) | (192) | 55 | (506) |
| (Gain)/loss on disposal of property plant and equipment | – | (45) | (17) | (24) |
| (Gain)/loss on net assets of pension schemes | – | (69) | (269) | (301) |
| (Increase)/decrease in receivables | (5,016) | (2,888) | 825 | (768) |
| Decrease/(increase) in deposits with ceded undertakings | 1,053 | (406) | – | – |
| (Decrease)/increase in payables | (24,553) | (4,807) | (377) | 364 |
| Provisions for liabilities and charges | – | (529) | (119) | 338 |
| (Decrease)/increase in net insurance technical provisions | (19,761) | (11,143) | 529 | 71 |
| | <u>(43,530)</u> | <u>(14,665)</u> | <u>1,384</u> | <u>(1,398)</u> |
| Sale of financial assets | 20,110 | 2,729 | 3,066 | 6,326 |
| Purchase of financial assets | (12,653) | (170,547) | (3) | (5,157) |
| Cash generated from operations | (36,073) | (182,483) | 4,447 | (229) |
| Income taxes paid | – | (87) | (80) | (94) |
| Net cash from/(used in) operating activities | <u>(36,073)</u> | <u>(182,570)</u> | <u>4,367</u> | <u>(323)</u> |
| Cash flows from investing activities | | | | |
| Proceeds from sale of property, plant and equipment | – | – | 17 | 26 |
| Purchase of property, plant and equipment | (88) | (122) | (265) | (307) |
| Acquisition of subsidiary undertakings (net of cash acquired) | – | 269,266 | – | 2,592 |
| Proceeds from disposal of investment properties | – | 1,300 | – | – |
| Dividends paid to minority shareholders | – | (24) | – | – |
| Purchase of minority interest in subsidiary undertakings | – | (16) | – | (23) |
| Net cash from/(used) in investing activities | <u>(88)</u> | <u>270,404</u> | <u>(248)</u> | <u>2,288</u> |
| Cash flows (used in)/from financing activities | | | | |
| Repayment of loans | (11,419) | (3,915) | (3,442) | – |
| Redemption of preference D shares | (580) | (670) | – | – |
| New loan arrangements | 14,352 | 11,183 | – | – |
| Dividends paid | (1,400) | (1,775) | – | – |
| Interest paid | (582) | (212) | (132) | (18) |
| Shareholder loan | – | – | – | 219 |
| Net cash from/(used in) financing activities | <u>371</u> | <u>4,611</u> | <u>(3,574)</u> | <u>201</u> |
| Net (decrease)/increase in cash and cash equivalents | <u>(35,790)</u> | <u>92,445</u> | <u>545</u> | <u>2,166</u> |
| Cash and cash equivalents at beginning of period | 90,857 | 5,949 | 5,404 | 3,276 |
| Foreign exchange movement on cash and cash equivalents | (463) | (7,537) | – | (38) |
| Cash and cash equivalents at end of period | <u>18</u> <u>54,604</u> | <u>90,857</u> | <u>5,949</u> | <u>5,404</u> |

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

| | <i>Note</i> | <i>9 months ended</i> | | <i>Year ended</i> | | |
|---------------------------------------------------------|-------------|-----------------------|--------------|--------------------|--------------|--------------|
| | | <i>30 September</i> | | <i>31 December</i> | | |
| | | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Recognised in the financial year: | | | | | | |
| Exchange gains/(losses) on consolidation | | 231 | (713) | (640) | 1,055 | (252) |
| Pension scheme actuarial gains/(losses) | | (232) | 634 | 846 | 614 | (980) |
| Deferred tax on pension scheme actuarial gains/(losses) | 23 | 70 | (190) | (254) | (184) | 294 |
| Net income/(expense) recognised directly in equity | | 69 | (269) | (48) | 1,485 | (938) |
| Surplus for the financial period | | 4,740 | 15,948 | 39,453 | 544 | 7,197 |
| Total recognised income for the financial period | | 4,809 | 15,679 | 39,405 | 2,029 | 6,259 |
| Attributable to: | | | | | | |
| Equity holders of the parent | 25 | 4,777 | 15,641 | 39,358 | 1,693 | 6,262 |
| Minority interests | | 32 | 38 | 47 | 336 | (3) |
| Total recognised in the financial period | | 4,809 | 15,679 | 39,405 | 2,029 | 6,259 |

NOTES TO THE FINANCIAL INFORMATION

1. Corporate information

Randall & Quilter Investment Holdings Limited (the “Company”) is a company domiciled and incorporated in England and Wales. The 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.

2. Accounting policies

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

a. *Basis of preparation*

The financial information has been prepared in accordance with International Financial Reporting Standards (IFRS), endorsed by the European Union (EU), IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The information in this Part V does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The financial information has been prepared under the historical cost convention except that financial assets are stated at their fair value.

The preparation of the financial information 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 financial information 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.

At the date of preparation of this financial information 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 this financial information. These are:

- IFRS8: Operating Segments
- IFRIC10: Interim Financial Reporting and Impairment
- IFRIC12: Service Concession Arrangements

It is not anticipated that adoption of the above will have a material impact on the financial information.

Significant uncertainty in technical provisions

Significant uncertainty exists as to the accuracy of the provisions for claims outstanding and the recoveries due from reinsurers established in the insurance company subsidiaries 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 financial information has been prepared and consolidated on a going concern basis since the Directors are of the opinion, based on the information currently available, that the insurance company subsidiaries will continue in operational existence and be able to meet all their liabilities and obligations for the foreseeable future.

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

2. Accounting policies (continued)

a. *Basis of preparation (continued)*

The Company and its other subsidiaries bear no financial responsibility for any liabilities or obligations of any insurance company subsidiary in run-off, except as referred to in Note 20 and 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 30 September 2007 was £21.9m.

b. *Selection of accounting policies*

The Group exercises judgement in selecting each Group accounting policy. The accounting policies of the Group are selected by the directors to present financial information that they consider provides 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 financial information is 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 below:

- 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 information incorporates the financial information of the Company, and entities controlled by the Company (its subsidiaries), for the nine months ended 30 September 2007 and 2006 and the years ended 31 December 2006, 2005 and 2004. 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 information 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 information. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2. Accounting policies (continued)

c. Consolidation (continued)

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.

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 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 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 Information are fairly stated.

2. Accounting policies (continued)

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.

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; however, 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.

j. *Foreign currency translation*

(i) *Functional and presentational currency*

Items included in the financial information 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 information is 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.

2. Accounting policies (continued)

j. Foreign currency translation (continued)

(ii) Transactions and balances (continued)

The assets and liabilities of foreign entities, 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 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

(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 quoted 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.

(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.

2. Accounting policies (continued)

n. *Property, plant and equipment*

All assets included within property, plant and equipment 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 |

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 this financial information. 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 the income statement on a straight line basis as follows:

| | % |
|-------------------|----|
| Computer software | 20 |

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.

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 amounts of the contributions.

The defined benefit scheme is funded by contributions from a subsidiary company and its assets are held in a separate Trustee administered fund. Pension scheme assets are measured 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.

2. Accounting policies (continued)

q. *Pensions (continued)*

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*

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.

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.

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.

w. *Other income*

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

2. Accounting policies (continued)

w. *Other income (continued)*

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. *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 information. 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.

3. Estimation techniques, uncertainties and contingencies

Claims provisions

The Group owns a number of insurance companies in run-off. The financial information includes provisions for all outstanding claims and IBNR, for related reinsurance recoveries and for all costs expected to be incurred in the completion of the run-off.

The provision for claims outstanding and IBNR is based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques. There are significant uncertainties inherent in the estimation of each insurance company subsidiary's insurance liabilities and reinsurance recoveries. There are many assumptions and estimation techniques that may be applied in assessing the amount of those provisions which individually could have a material impact on the amounts of liabilities, related reinsurance assets and reported shareholders' funds disclosed in the financial information. 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 considerable uncertainty as to the timing of such settlements and the amounts at which they will be settled.

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

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or 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.

3. Estimation techniques, uncertainties and contingencies (continued)

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.

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 cashflows for any period.

Changes in foreign exchange rates

The Group's consolidated financial information is 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 cashflows from period to period. 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.

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 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 period-end is shown below:

| | <i>30 September</i> | <i>31 December</i> | <i>31 December</i> | <i>31 December</i> |
|------------------------------------|---------------------|--------------------|--------------------|--------------------|
| | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£m</i> | <i>£m</i> | <i>£m</i> | <i>£m</i> |
| Government and Government agencies | 131.4 | 229.4 | 13.4 | 14.7 |
| Corporate Bonds | 63.9 | 4.1 | – | – |
| Equities | 2.2 | 2.2 | 0.1 | 0.4 |
| Cash based investment funds | 25.4 | – | – | – |
| Cash and cash equivalents | 54.1 | 91.0 | 6.5 | 5.8 |
| Others | 1.3 | 0.9 | – | – |
| Less bank overdrafts | (0.7) | (1.1) | (0.6) | (0.4) |
| | <u>277.6</u> | <u>326.5</u> | <u>19.4</u> | <u>20.5</u> |
| | % | % | % | % |
| Government and Government agencies | 47.4 | 70.2 | 68.9 | 71.6 |
| Corporate Bonds | 23.0 | 1.2 | – | – |
| Equities | 0.8 | 0.7 | 0.6 | 2.0 |
| Cash based investment funds | 9.1 | – | – | – |
| Cash and cash equivalents | 19.5 | 27.8 | 30.5 | 26.4 |
| Others | 0.2 | 0.1 | – | – |
| | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

Based on invested assets at external managers of £222,928,000 as at 30 September 2007 (2006: £235,729,000, 2005: £13,532,000, 2004: £15,082,000), a 1 per cent. increase/decrease in fair value would result in an increase/decrease in the profit for the period to 30 September 2007 of £2,229,280 (2006: £2,357,290, 2005: £133,520, 2004: £150,820).

4 Risk management (continued)

a. Investment risks (continued)

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

30 September 2007

Maturity date or contractual re-pricing date

| | <i>Total £m</i> | <i>Less than one year £m</i> | <i>After one year but less than two years £m</i> | <i>After two years but less than three years £m</i> | <i>After three years but less than five years £m</i> | <i>More than five years £m</i> |
|------------|---------------------|--------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------|
| Fixed rate | 219.0 | 67.4 | 65.9 | 54.3 | 21.6 | 9.8 |

Interest rate ranges (coupon rates)

| | <i>Less than one year %</i> | <i>After one year but less than two years %</i> | <i>After two years but less than three years %</i> | <i>After three years but less than five years %</i> | <i>More than five years %</i> |
|------------|-------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------|
| Fixed rate | 0-6.61 | 3.25-6.625 | 3.37-8.75 | 4.25-7 | 4.875-11.5 |

31 December 2006

Maturity date or contractual re-pricing date

| | <i>Total £m</i> | <i>Less than one year £m</i> | <i>After one year but less than two years £m</i> | <i>After two years but less than three years £m</i> | <i>After three years but less than five years £m</i> | <i>More than five years £m</i> |
|------------|---------------------|--------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------|
| Fixed rate | 254.5 | 28.1 | 114.8 | 84.0 | 14.0 | 13.6 |

Interest rate ranges (coupon rates)

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

31 December 2005

Maturity date or contractual re-pricing date

| | <i>Total £m</i> | <i>Less than one year £m</i> | <i>After one year but less than two years £m</i> | <i>After two years but less than three years £m</i> | <i>After three years but less than five years £m</i> | <i>More than five years £m</i> |
|------------|---------------------|--------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------|
| Fixed rate | 13.5 | 1.8 | – | 3.2 | 1.2 | 7.3 |

4 Risk management (continued)

a. Investment risks (continued)

Interest rate ranges (coupon rates)

| | <i>Less than one year %</i> | <i>After one year but less than two years %</i> | <i>After two years but less than three years %</i> | <i>After three years but less than five years %</i> | <i>More than five years %</i> |
|------------|-------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------|
| Fixed rate | 2.63 | – | 3-4.75 | 3.25-5.625 | 5-9.875 |

31 December 2004

Maturity date or contractual re-pricing date

| | <i>Total £m</i> | <i>Less than one year £m</i> | <i>After one year but less than two years £m</i> | <i>After two years but less than three years £m</i> | <i>After three years but less than five years £m</i> | <i>More than five years £m</i> |
|------------|---------------------|--------------------------------------|------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------|
| Fixed rate | 12.9 | – | 1.6 | – | 4.0 | 7.3 |

Interest rate ranges (coupon rates)

| | <i>Less than one year %</i> | <i>After one year but less than two years %</i> | <i>After two years but less than three years %</i> | <i>After three years but less than five years %</i> | <i>More than five years %</i> |
|------------|-------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------|
| Fixed rate | – | 2.63 | – | 3-5.625 | 5-9.875 |

b. Credit risk

Credit risk arises 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.

Reinsurance recoverable is evaluated regularly and existing bad debt provisions are evaluated as to adequacy. The Group's exposure to credit risk is summarised below.

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

As at 30 September 2007

| | <i>A rated £'000</i> | <i>B rated £'000</i> | <i>Less than B £'000</i> | <i>Not rated £'000</i> | <i>Exposures of less than £0.2m £'000</i> | <i>Total £'000</i> |
|--------------------------------------------------|--------------------------|--------------------------|----------------------------------|--------------------------------|-------------------------------------------------------|------------------------|
| Deposits with ceding undertakings | 625 | 1,044 | – | 839 | 1,202 | 3,710 |
| Reinsurers share of technical provisions | 90,597 | 41,840 | 12,563 | 43,032 | 60,474 | 248,456 |
| Receivables arising out of reinsurance contracts | 12,247 | 3,594 | 816 | 2,149 | 8,310 | 27,116 |

4 Risk management (continued)

b. Credit risk (continued)

As at 31 December 2006

| | <i>A rated</i> £'000 | <i>B rated</i> £'000 | <i>Less than</i> <i>B</i> £'000 | <i>Not</i> <i>rated</i> £'000 | <i>Exposures of</i> <i>less than</i> £0.2m £'000 | <i>Total</i> £'000 |
|--------------------------------------------------|-------------------------|-------------------------|---------------------------------------|-------------------------------------|-----------------------------------------------------------|-----------------------|
| Deposits with ceding undertakings | 714 | 1,337 | – | 1,073 | 1,499 | 4,623 |
| Reinsurers share of technical provisions | 98,286 | 45,225 | 13,645 | 52,918 | 76,599 | 286,673 |
| Receivables arising out of reinsurance contracts | 10,455 | 3,210 | 874 | 4,050 | 4,958 | 23,540 |

As at 31 December 2005

| | <i>A rated</i> £'000 | <i>B rated</i> £'000 | <i>Less than</i> <i>B</i> £'000 | <i>Not</i> <i>rated</i> £'000 | <i>Exposures of</i> <i>less than</i> £0.2m £'000 | <i>Total</i> £'000 |
|--------------------------------------------------|-------------------------|-------------------------|---------------------------------------|-------------------------------------|-----------------------------------------------------------|-----------------------|
| Deposits with ceding undertakings | – | – | – | – | – | – |
| Reinsurers share of technical provisions | 33,528 | 33,952 | 15,216 | 4,181 | 10,403 | 97,280 |
| Receivables arising out of reinsurance contracts | 2,608 | 2,640 | 1,183 | 325 | 943 | 7,699 |

As at 31 December 2004

| | <i>A rated</i> £'000 | <i>B rated</i> £'000 | <i>Less than</i> <i>B</i> £'000 | <i>Not</i> <i>rated</i> £'000 | <i>Exposures of</i> <i>less than</i> £0.2m £'000 | <i>Total</i> £'000 |
|--------------------------------------------------|-------------------------|-------------------------|---------------------------------------|-------------------------------------|-----------------------------------------------------------|-----------------------|
| Deposits with ceding undertakings | – | – | – | – | – | – |
| Reinsurers share of technical provisions | 29,041 | 29,409 | 13,179 | 3,622 | 9,030 | 84,281 |
| Receivables arising out of reinsurance contracts | 3,416 | 3,459 | 1,550 | 426 | 1,522 | 10,373 |

The reinsurers share of technical provisions 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.

4 Risk management (continued)

c. *Liquidity risk (continued)*

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.

Surplus cash is deposited with the Royal Bank of Scotland.

d. *Currency risk*

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 seek where possible to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

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

| | <i>30 September</i> 2007 £'000 | <i>31 December</i> 2006 £'000 | <i>31 December</i> 2005 £'000 | <i>31 December</i> 2004 £'000 |
|--------------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| US Dollars | | | | |
| Reinsurance assets | 226,432 | 244,499 | 97,280 | 84,281 |
| Financial investments | 176,638 | 198,776 | 13,415 | 12,821 |
| Insurance receivables | 20,109 | 14,711 | 7,565 | 9,907 |
| Cash and cash equivalents | 29,194 | 68,063 | 3,522 | 2,926 |
| Insurance liabilities including provisions | (441,767) | (483,224) | (103,662) | (88,648) |
| Other provisions | (4,236) | (4,782) | (5,788) | (7,589) |
| Trade and other (payables)/receivables | 4,538 | (15,272) | 804 | 731 |
| | <u>10,908</u> | <u>22,771</u> | <u>13,136</u> | <u>14,429</u> |

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

| | <i>30 September</i> 2007 £'000 | <i>31 December</i> 2006 £'000 | <i>31 December</i> 2005 £'000 | <i>31 December</i> 2004 £'000 |
|--------------------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Euro | | | | |
| Reinsurance assets | 2,789 | 2,473 | – | – |
| Financial investments | 2,168 | 2,096 | 808 | 853 |
| Insurance receivables | 17 | 17 | 13 | 219 |
| Cash and cash equivalents | 8,555 | 842 | 168 | 209 |
| Insurance liabilities including provisions | (11,272) | (12,033) | (115) | (352) |
| Other provisions | – | – | – | – |
| Trade and other (payables)/receivables | (28) | (91) | (47) | (55) |
| | <u>2,229</u> | <u>(6,696)</u> | <u>827</u> | <u>874</u> |

4 Risk management (continued)

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 Board, together with its 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:

| <i>Subsidiary</i> | <i>Date business entered run off</i> | <i>Date acquired by the Group</i> |
|-----------------------------------|--------------------------------------|-----------------------------------|
| Ludgate Insurance Company | 1987 | 4 August 1992 |
| La Metropole SA | 1995 | 29 November 2000 |
| Transport Insurance Company | 1996 | 17 November 2004 |
| R&Q Reinsurance Company | 1994 | 3 July 2006 |
| R&Q Reinsurance (Belgium) Limited | 1994 | 3 July 2006 |
| R&Q Reinsurance (UK) Limited | 1990 | 3 July 2006 |
| Chevanstell Limited | 2003 | 10 November 2006 |
| Arran Insurance Company Limited | 1984 | 21 December 2006 |

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 at the previous year-end prove to be inadequate.

In order to mitigate reserving risk, the companies use a number of approaches, including actuarial techniques, to project gross and net insurance liabilities.

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.

4 Risk management (continued)

f. Insurance risk (continued)

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

| | <i>Group entities at 1 January 2004</i> £'000 | <i>Entities acquired by the Group during 2004</i> £'000 | <i>Entities acquired by the Group during 2005</i> £'000 | <i>Entities acquired by the Group during 2006</i> £'000 |
|-------------------------------------|--------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
| Gross reserves at: | | | | |
| 1 January 2004/acquisition | 4,914 | 89,221 | – | 499,383 |
| First year/period end movement | 48 | (1,375) | – | (46,472) |
| Second year/period end movement | (2,385) | 14,750 | – | (57,429) |
| Third year/period end movement | (2,482) | (12,098) | – | – |
| Fourth year/period end movement | 3 | (5,878) | – | – |
| Gross position at 30 September 2007 | <u>98</u> | <u>84,620</u> | <u>–</u> | <u>395,482</u> |
| Estimated gross ultimate claims at: | | | | |
| 1 January 2004/acquisition | 4,914 | 89,221 | – | 499,383 |
| Foreign exchange | (3) | (7,560) | – | (30,433) |
| Payments in the period | (4,688) | (9,883) | – | (57,644) |
| Gross position at 30 September 2007 | <u>(98)</u> | <u>(84,620)</u> | <u>–</u> | <u>(395,482)</u> |
| Surplus/(deficit) to date | <u>125</u> | <u>(12,842)</u> | <u>–</u> | <u>15,824</u> |

Analysis of claims development – net

| | <i>Group entities at 1 January 2004</i> £'000 | <i>Entities acquired by the Group during 2004</i> £'000 | <i>Entities acquired by the Group during 2005</i> £'000 | <i>Entities acquired by the Group during 2006</i> £'000 |
|-----------------------------------|--------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------|
| Net reserves at: | | | | |
| At 1 January 2004/acquisition | 4,853 | 3,603 | – | 270,983 |
| First year/period end movement | 109 | (38) | – | (17,515) |
| Second year/period end movement | (2,385) | 1,751 | – | (26,130) |
| Third year/period end movement | (2,482) | (2,048) | – | – |
| Fourth year/period end movement | 3 | 1,040 | – | – |
| Net position at 30 September 2007 | <u>98</u> | <u>4,308</u> | <u>–</u> | <u>227,338</u> |
| Estimated net ultimate claims at: | | | | |
| 1 January 2004/acquisition | 4,853 | 3,603 | – | 270,983 |
| Foreign exchange | (3) | (445) | – | (13,286) |
| Net payments in the periods | (4,450) | 2,521 | – | (26,981) |
| Net position at 30 September 2007 | <u>(98)</u> | <u>(4,308)</u> | <u>–</u> | <u>(227,338)</u> |
| Surplus/(deficit) to date | <u>302</u> | <u>1,371</u> | <u>–</u> | <u>3,378</u> |

No insurance operations have been acquired by the Group during 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 9 months ended 30 September 2007

| | <i>Insurance run-off £'000</i> | <i>Insurance services £'000</i> | <i>Other corporate</i> | <i>Consolidation adjustments £'000</i> | <i>Total £'000</i> |
|---------------------------------------------------------------------|----------------------------------------|-----------------------------------------|----------------------------|------------------------------------------------|------------------------|
| Gross premium written | 818 | – | – | – | 818 |
| Reinsurers share of gross premiums | 112 | – | – | – | 112 |
| Earned premium net of reinsurance | 930 | – | – | – | 930 |
| Net investment income | 11,127 | 97 | 82 | – | 11,306 |
| Other underwriting income | 73 | – | – | – | 73 |
| Other income | – | 14,118 | 225 | (7,275) | 7,068 |
| | <u>11,200</u> | <u>14,215</u> | <u>307</u> | <u>(7,275)</u> | <u>18,447</u> |
| Total income | 12,130 | 14,215 | 307 | (7,275) | 19,377 |
| Gross claims paid | (41,154) | – | – | – | (41,154) |
| Reinsurers share of gross claims paid | 21,943 | – | – | – | 21,943 |
| Claims paid, net of reinsurance | <u>(19,211)</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>(19,211)</u> |
| Movement in gross technical provisions | 47,506 | – | – | – | 47,506 |
| Movement in reinsurer's share of technical provisions | (27,745) | – | – | – | (27,745) |
| Net change in provision for claims | <u>19,761</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>19,761</u> |
| Net insurance claims incurred | 550 | – | – | – | 550 |
| Administrative expenses | (9,984) | (10,643) | (1,261) | 7,275 | (14,613) |
| Operating expenses | (9,984) | (10,643) | (1,261) | 7,275 | (14,613) |
| Earnings before interest, tax, depreciation and amortisation | 2,696 | 3,572 | (954) | – | 5,314 |
| Depreciation and amortisation | – | (167) | – | – | (167) |
| Result of operating activities | <u>2,696</u> | <u>3,405</u> | <u>(954)</u> | <u>–</u> | <u>5,147</u> |
| Finance costs | – | (27) | (1,335) | – | (1,362) |
| Management charges | – | (2,425) | 2,425 | – | – |
| Profit on ordinary activities before income taxes | 2,696 | 953 | 136 | – | 3,785 |
| Income tax credit | – | 955 | – | – | 955 |
| Profit/(loss) for the period | 2,696 | 1,908 | 136 | – | 4,740 |
| Segment Assets | 566,749 | 13,735 | 24,448 | (20,525) | 584,407 |
| Segment Liabilities | 506,563 | 10,445 | 22,917 | (10,545) | 529,380 |

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

5. Segmental information (continued)

Primary segment information – Segment result for the nine months ended 30 September 2006

| | <i>Insurance run-off £'000</i> | <i>Insurance services £'000</i> | <i>Other corporate £'000</i> | <i>Consolidation adjustments £'000</i> | <i>Total £'000</i> |
|----------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------|--------------------------------------|------------------------------------------------|------------------------|
| Gross premium written | 89 | – | – | – | 89 |
| Reinsurers share of gross premiums | (5) | – | – | – | (5) |
| Earned premium net of reinsurance | 84 | – | – | – | 84 |
| Net investment income | 4,604 | 61 | 3 | – | 4,668 |
| Other underwriting income | 72 | – | – | – | 72 |
| Other income | – | 13,557 | 447 | (2,967) | 11,037 |
| | <u>4,676</u> | <u>13,618</u> | <u>450</u> | <u>(2,967)</u> | <u>15,777</u> |
| Total income | 4,760 | 13,618 | 450 | (2,967) | 15,861 |
| Gross claims paid | (8,604) | – | – | – | (8,604) |
| Reinsurers share of gross claims paid | 2,761 | – | – | – | 2,761 |
| Claims paid, net of reinsurance | (5,843) | – | – | – | (5,843) |
| Movement in gross technical provisions | 16,129 | – | – | – | 16,129 |
| Movement in reinsurer's share of technical provisions | (7,313) | – | – | – | (7,313) |
| Net change in provision for claims | 8,816 | – | – | – | 8,816 |
| Net insurance claims incurred | 2,973 | – | – | – | 2,973 |
| Administrative expenses | (4,135) | (12,352) | (787) | 2,967 | (14,307) |
| Earnings before interest, tax, depreciation and amortisation | 3,598 | 1,266 | (337) | – | 4,527 |
| Depreciation and amortisation | – | (165) | – | – | (165) |
| Operating result before negative goodwill and impairment of intangible assets | 3,598 | 1,101 | (337) | – | 4,362 |
| Negative goodwill arising on acquisition | – | – | – | 13,187 | 13,187 |
| Impairment of intangibles | – | (899) | – | (436) | 1,335 |
| Result of operating activities | 3,598 | 202 | (337) | 12,751 | 16,214 |
| Finance costs | – | – | (587) | – | (587) |
| Management charges | – | (416) | 416 | – | – |
| Profit/(loss) on ordinary activities before income taxes | 3,598 | (214) | (508) | 12,751 | 15,627 |
| Income tax credit | – | 321 | – | – | 321 |
| Profit/(loss) for the period | 3,598 | 107 | (508) | 12,751 | 15,948 |

5. Segmental information (continued)

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

| | <i>Insurance run-off £'000</i> | <i>Insurance services £'000</i> | <i>Other corporate £'000</i> | <i>Consolidation adjustments £'000</i> | <i>Total £'000</i> |
|-------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------|--------------------------------------|------------------------------------------------|------------------------|
| Gross premium written | 290 | – | – | – | 290 |
| Reinsurers share of gross premiums | (46) | – | – | – | (46) |
| Earned premium net of reinsurance | 244 | – | – | – | 244 |
| Net investment income | 7,068 | 80 | 5 | – | 7,153 |
| Other underwriting income | – | – | – | – | – |
| Other income | – | 18,154 | 733 | (3,317) | 15,570 |
| | <u>7,068</u> | <u>18,234</u> | <u>738</u> | <u>(3,317)</u> | <u>22,723</u> |
| Total income | 7,312 | 18,234 | 738 | (3,317) | 22,967 |
| Gross claims paid | (25,583) | – | – | – | (25,583) |
| Reinsurers share of gross claims paid | 11,079 | – | – | – | 11,079 |
| Claims paid, net of reinsurance | (14,504) | – | – | – | (14,504) |
| Movement in gross technical provisions | 29,063 | – | – | – | 29,063 |
| Movement in reinsurer's share of technical provisions | (10,583) | – | – | – | (10,583) |
| Net change in provision for claims | 18,480 | – | – | – | 18,480 |
| Net insurance claims incurred | 3,976 | – | – | – | 3,976 |
| Administrative expenses | (7,429) | (16,410) | (1,011) | 3,317 | (21,533) |
| Operating expenses | (7,429) | (16,410) | (1,011) | 3,317 | (21,533) |
| Earnings before interest, tax, depreciation and amortisation | 3,859 | 1,824 | (273) | – | 5,410 |
| Depreciation and amortisation | – | (220) | – | – | (220) |
| Operating result before negative goodwill and impairment of intangible assets | 3,859 | 1,604 | (273) | – | 5,190 |
| Negative goodwill | – | – | – | 35,958 | 35,958 |
| Impairment of intangible assets | – | (888) | – | (436) | (1,324) |
| Result of operating activities | 3,859 | 716 | (273) | 35,522 | 39,824 |
| Finance costs | – | (8) | (740) | – | (748) |
| Management charges | – | (832) | 832 | – | – |
| Profit/(loss) on ordinary activities before income taxes | 3,859 | (124) | (181) | 35,522 | 39,076 |
| Income tax credit | – | 377 | – | – | 377 |
| Profit/(loss) for the period | 3,859 | 253 | (181) | 35,522 | 39,453 |
| Segment Assets | 654,980 | 18,215 | 22,600 | (26,979) | 668,816 |
| Segment Liabilities | 596,587 | 17,638 | 21,219 | (18,246) | 617,198 |

5. Segmental information (continued)

Primary segment information – Segment result for the period ended 31 December 2005

| | <i>Insurance run-off £'000</i> | <i>Insurance services £'000</i> | <i>Other corporate £'000</i> | <i>Consolidation adjustments £'000</i> | <i>Total £'000</i> |
|---------------------------------------------------------------------|----------------------------------------|-----------------------------------------|--------------------------------------|------------------------------------------------|------------------------|
| Gross premium written | – | – | – | – | – |
| Reinsurers share of gross premiums | – | – | – | – | – |
| Earned premium net of reinsurance | – | – | – | – | – |
| Net investment income | 424 | 101 | 4 | – | 529 |
| Other underwriting income | – | – | – | – | – |
| Other income | – | 14,790 | 713 | (477) | 15,026 |
| | 424 | 14,891 | 717 | (477) | 15,555 |
| Total income | 424 | 14,891 | 717 | (477) | 15,555 |
| Gross claims paid | (5,505) | – | – | – | (5,505) |
| Reinsurers share of gross claims paid | 2,207 | – | – | – | 2,207 |
| Claims paid, net of reinsurance | (3,298) | – | – | – | (3,298) |
| Movement in gross technical provisions | (846) | – | – | – | (846) |
| Movement in reinsurer's share of technical provisions | 4,986 | – | – | – | 4,986 |
| Net change in provision for claims | 4,140 | – | – | – | 4,140 |
| Net insurance claims incurred | 842 | – | – | – | 842 |
| Administrative expenses | (2,421) | (13,145) | (551) | 477 | (15,640) |
| Operating expenses | (2,421) | (13,145) | (551) | 477 | (15,640) |
| Earnings before interest, tax, depreciation and amortisation | (1,155) | 1,746 | 166 | – | 757 |
| Depreciation and amortisation | – | (474) | – | – | (474) |
| Results of operating activities | (1,155) | 1,272 | 166 | – | 283 |
| Finance costs | – | – | (132) | – | (132) |
| (Loss)/profit on ordinary activities before income taxes | (1,155) | 1,272 | 34 | – | 151 |
| Income tax credit | – | 393 | – | – | 393 |
| (Loss)/profit for the period | (1,155) | 1,665 | 34 | – | 544 |
| Segment Assets | 128,610 | 9,135 | 4,383 | (5,315) | 136,813 |
| Segment Liabilities | 116,354 | 8,058 | 3,589 | (4,759) | 123,242 |

5. Segmental information (continued)

Primary segment information – Segment result for the period ended 31 December 2004

| | <i>Insurance run-off £'000</i> | <i>Insurance services £'000</i> | <i>Other corporate £'000</i> | <i>Consolidation adjustments £'000</i> | <i>Total £'000</i> |
|-------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------|--------------------------------------|------------------------------------------------|------------------------|
| Gross premium written | 15 | – | – | – | 15 |
| Reinsurers share of gross premiums | (15) | – | – | – | (15) |
| Earned premium net of reinsurance | – | – | – | – | – |
| Net investment income | 1,001 | 44 | 4 | – | 1,049 |
| Other underwriting income | – | – | – | – | – |
| Other income | – | 13,011 | 331 | (463) | 12,879 |
| | <u>1,001</u> | <u>13,055</u> | <u>335</u> | <u>(463)</u> | <u>13,928</u> |
| Total income | 1,001 | 13,055 | 335 | (463) | 13,928 |
| Gross claims paid | 27 | – | – | – | 27 |
| Reinsurance share of gross claims paid | 117 | – | – | – | 117 |
| Claims paid, net of reinsurance | 144 | – | – | – | 144 |
| Movement in gross technical Provisions | (401) | – | – | – | (401) |
| Movement in reinsurer's share of technical provisions | (60) | – | – | – | (60) |
| Net change in provision for claims | (461) | – | – | – | (461) |
| Net insurance claims incurred | (317) | – | – | – | (317) |
| Administrative expenses | (1,477) | (12,188) | (981) | 463 | (14,183) |
| Operating expenses | (1,477) | (12,188) | (981) | 463 | (14,183) |
| Earnings before interest, tax, depreciation and amortisation | (793) | 867 | (646) | – | (572) |
| Depreciation and amortisation | – | (226) | – | – | (226) |
| Operating result before negative goodwill and impairment of intangible assets | (793) | 641 | (646) | – | (798) |
| Negative goodwill | – | – | – | 8,215 | 8,215 |
| Impairment of intangible assets | – | – | – | – | – |
| Result of operating activities | (793) | 641 | (646) | 8,215 | 7,417 |
| Finance costs | – | – | (18) | – | (18) |
| (Loss)/profit on ordinary activities before income taxes | (793) | 641 | (664) | 8,215 | 7,399 |
| Income tax expense | – | (202) | – | – | (202) |
| (Loss)/profit for the period | (793) | 439 | (664) | 8,215 | 7,197 |
| Segment Assets | 118,391 | 9,316 | 4,604 | (6,534) | 125,777 |
| Segment Liabilities | 109,564 | 9,241 | 3,373 | (8,176) | 114,002 |

5. Segmental information (continued)

Secondary segment information – geographical analysis

As at 30 September 2007

| | <i>UK</i> £'000 | <i>United States</i> £'000 | <i>Europe</i> £'000 | <i>Total</i> £'000 |
|---------------------------|--------------------|-------------------------------|------------------------|-----------------------|
| Gross assets | 220,584 | 358,719 | 21,140 | 600,443 |
| Intercompany eliminations | (14,378) | (1,274) | (384) | (16,036) |
| Segment assets | <u>206,206</u> | <u>357,445</u> | <u>20,756</u> | <u>584,407</u> |
| | | <i>United States</i> | | |
| | <i>UK</i> £'000 | <i>£'000</i> | <i>Europe</i> £'000 | <i>Total</i> £'000 |
| Gross liabilities | 170,951 | 355,147 | 19,318 | 545,416 |
| Intercompany eliminations | (10,198) | (4,092) | (1,746) | (16,036) |
| Segment liabilities | <u>160,753</u> | <u>351,055</u> | <u>17,572</u> | <u>529,380</u> |
| Segment Income | <u>11,156</u> | <u>7,584</u> | <u>637</u> | <u>19,377</u> |

Secondary segment information – geographical analysis

As at 31 December 2006

| | <i>UK</i> £'000 | <i>United States</i> £'000 | <i>Europe</i> £'000 | <i>Total</i> £'000 |
|---------------------------|--------------------|-------------------------------|------------------------|-----------------------|
| Gross assets | 256,143 | 410,596 | 22,414 | 689,153 |
| Intercompany eliminations | (18,497) | (1,819) | (21) | (20,337) |
| Segment assets | <u>237,646</u> | <u>408,777</u> | <u>22,393</u> | <u>668,816</u> |
| | | <i>United States</i> | | |
| | <i>UK</i> £'000 | <i>£'000</i> | <i>Europe</i> £'000 | <i>Total</i> £'000 |
| Gross liabilities | 203,701 | 410,113 | 23,721 | 637,535 |
| Intercompany eliminations | (12,652) | (6,637) | (1,048) | (20,337) |
| Segment liabilities | <u>191,049</u> | <u>403,476</u> | <u>22,673</u> | <u>617,198</u> |
| Segment Income | <u>12,758</u> | <u>9,660</u> | <u>549</u> | <u>22,967</u> |

5. Segmental information (continued)

Secondary segment information – geographical analysis

As at 31 December 2005

| | <i>UK</i> £'000 | <i>United States</i> £'000 | <i>Europe</i> £'000 | <i>Total</i> £'000 |
|---------------------------|--------------------|-------------------------------|------------------------|-----------------------|
| Gross assets | 16,933 | 124,406 | 1,337 | 142,676 |
| Intercompany eliminations | (5,116) | (279) | (468) | (5,863) |
| Segment assets | <u>11,817</u> | <u>124,127</u> | <u>869</u> | <u>136,813</u> |
| | | <i>United States</i> | | |
| | <i>UK</i> £'000 | <i>£'000</i> | <i>Europe</i> £'000 | <i>Total</i> £'000 |
| Gross liabilities | 12,279 | 115,663 | 1,163 | 129,105 |
| Intercompany eliminations | (2,412) | (2,453) | (998) | (5,863) |
| Segment liabilities | <u>9,867</u> | <u>113,210</u> | <u>165</u> | <u>123,242</u> |
| Segment Income | <u>9,181</u> | <u>6,374</u> | <u>–</u> | <u>15,555</u> |

Secondary segment information – geographical analysis

As at 31 December 2004

| | <i>UK</i> £'000 | <i>United States</i> £'000 | <i>Europe</i> £'000 | <i>Total</i> £'000 |
|---------------------------|--------------------|-------------------------------|------------------------|-----------------------|
| Gross assets | 19,618 | 112,285 | 1,720 | 133,623 |
| Intercompany eliminations | (7,233) | (178) | (435) | (7,846) |
| Segment assets | <u>12,385</u> | <u>112,107</u> | <u>1,285</u> | <u>125,777</u> |
| | | <i>United States</i> | | |
| | <i>UK</i> £'000 | <i>£'000</i> | <i>Europe</i> £'000 | <i>Total</i> £'000 |
| Gross liabilities | 15,795 | 104,633 | 1,420 | 121,848 |
| Intercompany eliminations | (4,630) | (2,220) | (996) | (7,846) |
| Segment liabilities | <u>11,165</u> | <u>102,413</u> | <u>424</u> | <u>114,002</u> |
| Segment Income | <u>7,746</u> | <u>6,182</u> | <u>–</u> | <u>13,928</u> |

5. Segmental information (continued)

Primary segment information – Other information

As at 30 September 2007

| | <i>Insurance companies in run-off £'000</i> | <i>Insurance services £'000</i> | <i>Other corporate services £'000</i> | <i>Eliminations £'000</i> | <i>Total £'000</i> |
|-------------------------------------------------|---------------------------------------------------------|-----------------------------------------|---------------------------------------------------|-------------------------------|------------------------|
| Assets acquired through business combination | – | – | – | – | – |
| Capital expenditure | 1 | 86 | – | – | 87 |
| Depreciation | 39 | 124 | – | – | 163 |

Primary segment information – Other information

As at 31 December 2006

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

Primary segment information – Other information

As at 31 December 2005

| | <i>Insurance companies in run-off £'000</i> | <i>Insurance services £'000</i> | <i>Other corporate services £'000</i> | <i>Eliminations £'000</i> | <i>Total £'000</i> |
|-------------------------------------------------|---------------------------------------------------------|-----------------------------------------|---------------------------------------------------|-------------------------------|------------------------|
| Assets acquired through business combination | – | – | – | – | – |
| Capital expenditure | – | 265 | – | – | 265 |
| Depreciation | – | 234 | – | – | 234 |

Primary segment information – Other information

As at 31 December 2004

| | <i>Insurance companies in run-off £'000</i> | <i>Insurance services £'000</i> | <i>Other corporate services £'000</i> | <i>Eliminations £'000</i> | <i>Total £'000</i> |
|-------------------------------------------------|---------------------------------------------------------|-----------------------------------------|---------------------------------------------------|-------------------------------|------------------------|
| Assets acquired through business combination | 112,878 | – | – | – | 112,878 |
| Capital expenditure | – | 307 | – | – | 307 |
| Depreciation | – | 167 | – | – | 167 |

5. Segmental information (continued)

Analysis of result by existing operations and acquired entities

| | Note | Period ended 30 September 2007 | | | Period ended 30 September 2006 | | |
|-------------------------------------------------------------------------------|------|-----------------------------------|--------------|----------|-----------------------------------|--------------|----------|
| | | Existing Operations | Acquisitions | Total | Existing Operations | Acquisitions | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Gross premiums written | 5 | 818 | – | 818 | – | 89 | 89 |
| Reinsurers share of gross premiums | | 112 | – | 112 | – | (5) | (5) |
| Earned premium net of reinsurance | | 930 | – | 930 | – | 84 | 84 |
| Net investment income | 6 | 11,306 | – | 11,306 | 475 | 4,193 | 4,668 |
| Other underwriting income | | 73 | – | 73 | 72 | – | 72 |
| Other income | 7 | 7,068 | – | 7,068 | 11,037 | – | 11,037 |
| | | 18,447 | – | 18,447 | 11,584 | 4,193 | 15,777 |
| Total income | | 19,377 | – | 19,377 | 11,584 | 4,277 | 15,861 |
| Gross claims paid | | (41,154) | – | (41,154) | (5,841) | (2,763) | (8,604) |
| Reinsurance share of gross claims paid | | 21,943 | – | 21,943 | 2,062 | 699 | 2,761 |
| Claims paid, net of reinsurance | | (19,211) | – | (19,211) | (3,779) | (2,064) | (5,843) |
| Movement in gross technical provisions | | 47,506 | – | 47,506 | 6,396 | 9,733 | 16,129 |
| Movement in reinsurer's share of technical provisions | | (27,745) | – | (27,745) | (2,444) | (4,869) | (7,313) |
| Net change in provision for claims | | 19,761 | – | 19,761 | 3,952 | 4,864 | 8,816 |
| Net insurance claims incurred | | 550 | – | 550 | 173 | 2,800 | 2,973 |
| Administrative expenses | 8 | (14,780) | – | (14,780) | (11,722) | (2,750) | (14,472) |
| Operating expenses | | (14,780) | – | (14,780) | (11,722) | (2,750) | (14,472) |
| Operating result before negative goodwill and impairment of intangible assets | | 5,147 | – | 5,147 | 35 | 4,327 | 4,362 |
| Negative goodwill arising on acquisition | | – | – | – | – | 13,187 | 13,187 |
| Impairment intangibles | | – | – | – | (1,335) | – | (1,335) |
| Results of operating activities | | 5,147 | – | 5,147 | (1,300) | 17,514 | 16,214 |
| Finance costs | 9 | (1,362) | – | (1,362) | (587) | – | (587) |
| Profit/(loss) on ordinary activities before income taxes | 10 | 3,785 | – | 3,785 | (1,887) | 17,514 | 15,627 |
| Income tax credit | 11 | 955 | – | 955 | 321 | – | 321 |
| Profit/(loss) for the period | | 4,740 | – | 4,740 | (1,566) | 17,514 | 15,948 |

5. Segmental information (continued)

Analysis of result by existing operations and acquired entities (continued)

| | Note | Year ended 31 December 2006 | | | Year ended 31 December 2005 | | |
|----------------------------------------------------------------------------------------------------|------|--------------------------------|--------------|----------|--------------------------------|--------------|----------|
| | | Existing Operations | Acquisitions | Total | Existing Operations | Acquisitions | Total |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Gross premium written | 5 | (2) | 292 | 290 | – | – | – |
| Reinsurers share of gross premiums | | – | (46) | (46) | – | – | – |
| Earned premium net of reinsurance | | (2) | 246 | 244 | – | – | – |
| Net investment income | 6 | 525 | 6,628 | 7,153 | 529 | – | 529 |
| Other underwriting income | | – | – | – | – | – | – |
| Other income | 7 | 15,570 | – | 15,570 | 15,026 | – | 15,026 |
| Total income | | 16,093 | 6,874 | 22,967 | 15,555 | – | 15,555 |
| Gross claims paid | | (6,717) | (18,866) | (25,583) | (5,505) | – | (5,505) |
| Reinsurance share of gross claims paid | | 1,437 | 9,642 | 11,079 | 2,207 | – | 2,207 |
| Claims paid, net of reinsurance | | (5,280) | (9,224) | (14,504) | (3,298) | – | (3,298) |
| Movement in gross technical provisions | | 2,014 | 27,049 | 29,063 | (846) | – | (846) |
| Movement in reinsurer's share of technical provisions | | 4,829 | (15,412) | (10,583) | 4,986 | – | 4,986 |
| Net change in provision for claims | | 6,843 | 11,637 | 18,480 | 4,140 | – | 4,140 |
| Net insurance claims incurred | | 1,563 | 2,413 | 3,976 | 842 | – | 842 |
| Administrative expenses | 8 | (17,318) | (4,435) | (21,753) | (16,114) | – | (16,114) |
| Operating expenses | | (17,318) | (4,435) | (21,753) | (16,114) | – | (16,114) |
| Result of operating activities before negative goodwill and impairment of intangible assets | | 338 | 4,852 | 5,190 | 283 | – | 283 |
| Negative goodwill | | 561 | 35,397 | 35,958 | – | – | – |
| Impairment of intangible assets | | (1,324) | – | (1,324) | – | – | – |
| Result of operating activities | | (425) | 40,249 | 39,824 | 283 | – | 283 |
| Finance costs | 9 | (748) | – | (748) | (132) | – | (132) |
| Profit/(loss) on ordinary activities before income taxes | 10 | (1,173) | 40,249 | 39,076 | 151 | – | 151 |
| Income tax (expense)/credit | 11 | (1,649) | 2,026 | 377 | 393 | – | 393 |
| Profit/(loss) for the period | | (2,822) | 42,275 | 39,453 | 544 | – | 544 |

5. Segmental information (continued)

Analysis of result by existing operations and acquired entities (continued)

| | | <i>Year ended</i> <i>31 December 2004</i> | | |
|----------------------------------------------------------------------------------------------------|-------------|----------------------------------------------|---------------------|--------------|
| | | <i>Existing</i> | <i>Acquisitions</i> | <i>Total</i> |
| | <i>Note</i> | <i>Operations</i> | <i>£'000</i> | <i>£'000</i> |
| | | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Gross premium written | 5 | – | 15 | 15 |
| Reinsurers share of gross premiums | | – | (15) | (15) |
| Earned premiums net of reinsurance | | – | – | – |
| Net investment income | 6 | 814 | 235 | 1,049 |
| Other underwriting income | – | – | – | – |
| Other income | 7 | 12,879 | – | 12,879 |
| Total income | | 13,693 | 235 | 13,928 |
| Gross claims paid | 27 | 27 | – | 27 |
| Reinsurance share of gross claims paid | | 117 | – | 117 |
| Claims paid net of reinsurance | | 144 | – | 144 |
| Movement in gross technical provision | | (401) | – | (401) |
| Movement in reinsurer's share of technical provision | | (60) | – | (60) |
| Change in provision for claims | | (461) | – | (461) |
| Net insurance claims incurred | | (317) | – | (317) |
| Administrative expenses | 8 | (14,089) | (320) | (14,409) |
| Operating expenses | | (14,089) | (320) | (14,409) |
| Result of operating activities before negative goodwill and impairment of intangible assets | | (713) | (85) | (798) |
| Negative goodwill | | – | 8,215 | 8,215 |
| Impairment of intangible assets | | – | – | – |
| Result of operating activities | | (713) | 8,130 | 7,417 |
| Finance costs | 9 | (18) | – | (18) |
| Profit/(loss) on ordinary activities before income taxes | 10 | (731) | 8,130 | 7,399 |
| Income tax (expense)/credit | 11 | (227) | 25 | (202) |
| Profit/(loss) for the period | | (958) | 8,155 | 7,197 |

6. Net investment income

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|-----------------------------------------------|-----------------------|--------------|--------------------|--------------|--------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Investment income | 10,613 | 4,857 | 7,531 | 732 | 318 |
| Realised gains/(losses) on financial assets | (537) | 19 | 37 | (91) | 224 |
| Unrealised gains/(losses) on financial assets | 1,502 | (175) | (349) | (83) | 522 |
| Investment management expenses | (272) | (33) | (66) | (29) | (15) |
| | <u>11,306</u> | <u>4,668</u> | <u>7,153</u> | <u>529</u> | <u>1,049</u> |

7. Other income

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|--------------------------------------------------------------------------------|-----------------------|---------------|--------------------|---------------|---------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Administration of third party insurance companies in run off | 6,687 | 10,366 | 14,782 | 14,395 | 12,821 |
| Expected return on pension scheme assets | 976 | 1,206 | 1,608 | 1,406 | 1,332 |
| Interest on pension scheme liabilities | (897) | (836) | (1,114) | (1,093) | (1,031) |
| Proceeds of purchased reinsurance receivables (including debt collection fees) | 302 | 301 | 294 | 198 | – |
| Revaluation of investment property | – | – | – | 120 | (243) |
| | <u>7,068</u> | <u>11,037</u> | <u>15,570</u> | <u>15,026</u> | <u>12,879</u> |

8. Administrative expenses

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|-----------------------------------------|-----------------------|---------------|--------------------|---------------|---------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Costs of insurance company subsidiaries | 2,709 | 1,168 | 4,112 | 1,704 | 1,014 |
| Other operating expenses | 12,071 | 13,304 | 17,641 | 14,410 | 13,395 |
| | <u>14,780</u> | <u>14,472</u> | <u>21,753</u> | <u>16,114</u> | <u>14,409</u> |

The costs of insurance company subsidiaries exclude group charges.

9. Finance costs

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|-------------------------------------------------------|-----------------------|--------------|--------------------|--------------|--------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Bank loan and overdraft interest | 886 | 51 | 162 | 72 | 18 |
| Preference D share dividend and premium on redemption | 476 | 536 | 586 | 60 | – |
| | <u>1,362</u> | <u>587</u> | <u>748</u> | <u>132</u> | <u>18</u> |

10. Profit/(loss) on ordinary activities before taxation

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|--------------------------------------------------------------------------------------------|-----------------------|--------------|--------------------|---------------|--------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting): | | | | | |
| Employee benefits | 7,908 | 8,640 | 11,949 | 10,658 | 9,286 |
| Payment to employee benefit trust | – | – | 400 | – | – |
| Total employee benefits expense (note 27) | <u>7,908</u> | <u>8,640</u> | <u>12,349</u> | <u>10,658</u> | <u>9,286</u> |
| Depreciation of fixed assets | 163 | 164 | 219 | 234 | 167 |
| Amortisation of intangible assets | 4 | 1 | 1 | 240 | 59 |
| Operating lease rentals | 305 | 424 | 566 | 392 | 595 |
| Profit on sale of fixed assets | – | – | – | (17) | (24) |
| Auditors remuneration: | | | | | |
| Fees payable to the Company's auditor: | | | | | |
| The audit of the Company's financial information | 130 | 26 | 34 | 23 | 14 |
| The audit of the Company's subsidiaries pursuant to legislation | 180 | 99 | 186 | 84 | 77 |
| Non-regulatory reporting on material controls and corporate governance matters | 325 | 143 | 193 | – | 88 |
| Advice on financial and accounting matters | <u>35</u> | <u>30</u> | <u>40</u> | <u>46</u> | <u>7</u> |

11. Income tax

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|---------------------------------------------------|-----------------------|--------------|--------------------|--------------|--------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| a. <i>Analysis of charge in the period</i> | | | | | |
| Current tax – continuing operations | | | | | |
| Current period | – | (231) | (352) | (30) | (5) |
| Adjustments in respect of previous years | 198 | 3 | 4 | (3) | 17 |
| Foreign tax | (695) | (77) | (109) | (89) | 23 |
| | <u>(497)</u> | <u>(305)</u> | <u>(457)</u> | <u>(122)</u> | <u>35</u> |
| Deferred tax | <u>1,452</u> | <u>626</u> | <u>834</u> | <u>515</u> | <u>(237)</u> |
| Income tax credit/(expense) | <u>955</u> | <u>321</u> | <u>377</u> | <u>393</u> | <u>(202)</u> |

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:

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|---------------------------------------------------------------------------------------------------|-----------------------|---------------|--------------------|--------------|--------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Profit on ordinary activities before taxation | <u>3,785</u> | <u>15,627</u> | <u>39,076</u> | <u>151</u> | <u>7,399</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% | 1,135 | 4,688 | 11,723 | 45 | 2,220 |
| Permanent differences | 131 | (4,433) | (9,248) | 32 | (2,420) |
| Capital allowances for the year in excess of depreciation | (14) | – | – | 13 | 15 |
| Utilisation of tax losses | (741) | (1,329) | (2,999) | (1,503) | (293) |
| Timing differences – pension schemes | – | – | (30) | (114) | (84) |
| Other timing differences | 2,547 | 657 | 42 | 882 | 444 |
| Unrelieved losses | 4,371 | 47 | 66 | 300 | 347 |
| Insurance company losses deferred | (8,192) | – | – | – | – |
| Foreign tax rate differences | 6 | 52 | 73 | (51) | (10) |
| Adjustments to the tax charge in respect of prior periods | <u>(198)</u> | <u>(3)</u> | <u>(4)</u> | <u>3</u> | <u>(17)</u> |
| Income tax charge/(credit) for the period | <u>(955)</u> | <u>(321)</u> | <u>(377)</u> | <u>(393)</u> | <u>202</u> |

Included within the deferred tax credit for 2007 is an amount of £1,500,000 which is recognised for the first time as a result of the clarification of legislation in respect of the treatment of losses existing within the insurance company subsidiaries.

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 £71.4m (2006 £76.0m, 2005 £8.9m and 2004 £1.9m) in various group companies available to be carried forward against future trading profits of those companies. The recovery of these losses is uncertain and no deferred tax asset has been provided in respect of these losses; should it become possible to offset these losses against taxable profits in future years the Group tax charge in those years will be reduced accordingly.

12. Earnings 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.

As at 30 September 2007 the company has no potentially dilutive ordinary shares (31 December 2006, 2005, 2004 and September 2006: Nil)

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

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|----------------------------------------------------------------|-----------------------|--------------|--------------------|--------------|--------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Profit/loss for the year attributable to ordinary shareholders | 4,232 | 15,147 | 38,100 | (453) | 7,028 |
| Weighted average number of ordinary shares: | | | | | |
| Issued number of shares at period end | 25 | 25 | 25 | 25 | 25 |
| Bonus issue (see note 24) | 49,975 | 49,975 | 49,975 | 49,975 | 49,975 |
| | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Basic Earnings per ordinary share | 8.5p | 30.3p | 76.2p | (0.9)p | 14.1p |

There are no instruments or transactions that have a dilutive effect on earnings per share.

13. Dividends

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

| | <i>9 months ended</i> | | <i>Year ended</i> | | |
|---------------------------------------|-----------------------|--------------|--------------------|--------------|--------------|
| | <i>30 September</i> | | <i>31 December</i> | | |
| | <i>2007</i> | <i>2006</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Dividend to equity shareholders | – | 75 | 175 | – | – |
| Dividend to Preference C shareholders | 1,400 | 1,100 | 1,600 | – | – |
| | 1,400 | 1,175 | 1,775 | – | – |

14. Intangible assets

| | <i>Patents</i> £'000 | <i>Goodwill</i> £'000 | <i>Software</i> £'000 | <i>Total</i> £'000 |
|--------------------------------|-------------------------|--------------------------|--------------------------|-----------------------|
| As at 1 January 2004 | 1 | 1,281 | 1,125 | 2,407 |
| Exchange adjustments | – | – | 9 | 9 |
| Acquired in the year | – | 16 | – | 16 |
| Amortised in the year | – | – | (59) | (59) |
| As at 31 December 2004 | 1 | 1,297 | 1,075 | 2,373 |
| Exchange adjustments | – | – | 116 | 116 |
| Acquired in the year | – | – | – | – |
| Amortised in the year | – | – | (240) | (240) |
| As at 31 December 2005 | 1 | 1,297 | 951 | 2,249 |
| Exchange adjustments | – | – | (117) | (117) |
| Acquired in the year | – | 11,108 | 75 | 11,183 |
| Amortised in the year | – | – | (1) | (1) |
| Impaired in the year | – | (436) | (892) | (1,328) |
| As at 31 December 2006 | 1 | 11,969 | 16 | 11,986 |
| Exchange adjustments | – | – | – | – |
| Acquired in the period | – | – | – | – |
| Amortised in the period | – | – | (4) | (4) |
| As at 30 September 2007 | 1 | 11,969 | 12 | 11,982 |

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.

15. Property, plant and equipment

| | <i>Computer equipment</i> £'000 | <i>Motor vehicles</i> £'000 | <i>Office equipment</i> £'000 | <i>Leasehold improvements</i> £'000 | <i>Total</i> £'000 |
|-----------------------------------|----------------------------------------|------------------------------------|--------------------------------------|--------------------------------------------|-----------------------|
| Cost | | | | | |
| As at 1 January 2004 | 1,079 | 162 | 399 | 70 | 1,710 |
| Exchange adjustments | (122) | (1) | (11) | – | (134) |
| Additions | 206 | – | 101 | – | 307 |
| Transfer to investment property | – | – | (59) | – | (59) |
| Disposals | (48) | (72) | (10) | – | (130) |
| As at 31 December 2004 | 1,115 | 89 | 420 | 70 | 1,694 |
| Exchange adjustments | 26 | – | 3 | – | 29 |
| Additions | 65 | 33 | 167 | – | 265 |
| Disposals | (21) | (61) | (25) | – | (107) |
| Transfer to investment properties | (3) | – | – | – | (3) |
| As at 31 December 2005 | 1,182 | 61 | 565 | 70 | 1,878 |

15. Property, plant and equipment (continued)

| Cost | <i>Computer equipment</i> £'000 | <i>Motor vehicles</i> £'000 | <i>Office equipment</i> £'000 | <i>Leasehold improvements</i> £'000 | <i>Total</i> £'000 |
|--------------------------------|----------------------------------------|------------------------------------|--------------------------------------|--------------------------------------------|-----------------------|
| As at 31 December 2005 | 1,182 | 61 | 565 | 70 | 1,878 |
| Exchange adjustments | (52) | (1) | (8) | – | (61) |
| Additions | 71 | – | 19 | – | 90 |
| Disposals | (6) | – | – | – | (6) |
| As at 31 December 2006 | 1,195 | 60 | 576 | 70 | 1,901 |
| Exchange adjustments | (20) | – | (1) | – | (21) |
| Additions | 45 | – | 42 | – | 87 |
| Disposals | (6) | – | – | – | (6) |
| As at 30 September 2007 | 1,214 | 60 | 617 | 70 | 1,961 |
| Depreciation | | | | | |
| As at 1 January 2004 | 893 | 142 | 271 | 40 | 1,346 |
| Exchange adjustments | (30) | – | (6) | – | (36) |
| Charge for the year | 113 | 7 | 33 | 14 | 167 |
| Disposals | (46) | (72) | (10) | – | (128) |
| As at 31 December 2004 | 930 | 77 | 288 | 54 | 1,349 |
| Exchange adjustments | 26 | (1) | 5 | – | 30 |
| Charge for the year | 122 | 11 | 87 | 14 | 234 |
| Transfers out | (1) | – | – | – | (1) |
| Disposals | (21) | (61) | (25) | – | (107) |
| As at 31 December 2005 | 1,056 | 26 | 355 | 68 | 1,505 |
| Exchange adjustments | (103) | (1) | (5) | – | (109) |
| Charge for the year | 100 | 11 | 106 | 2 | 219 |
| Disposals | (6) | – | – | – | (6) |
| As at 31 December 2006 | 1,047 | 36 | 456 | 70 | 1,609 |
| Exchange adjustments | (19) | – | (1) | – | (20) |
| Charge for the period | 86 | – | 77 | – | 163 |
| Disposals | (6) | – | – | – | (6) |
| As at 30 September 2007 | 1,108 | 36 | 532 | 70 | 1,746 |
| Net book value | | | | | |
| At 31 December 2004 | 185 | 12 | 132 | 16 | 345 |
| At 31 December 2005 | 126 | 35 | 210 | 2 | 373 |
| At 31 December 2006 | 148 | 24 | 120 | – | 292 |
| At 30 September 2007 | 106 | 24 | 85 | – | 215 |

All of the tangible fixed assets of the Group are held by subsidiary undertakings.

As at 30 September 2007, the Group had no capital commitments (December 2006, 2005 and 2004 – £Nil).

The depreciation charge for the period is included in administrative expenses

16. Financial assets

(a) *Investment properties*

| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
|----------------------------------------------------------------|---------------|---------------|---------------|---------------|
| As at 30 September 2007 and 31 December 2006, 2005 and 2004 | 1,022 | 996 | 2,332 | 2,110 |

(b) *Fixed asset investments*

| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
|------------------------------------------|----------------|----------------|---------------|---------------|
| Equities | 2,278 | 2,226 | 117 | 417 |
| Debt securities – fixed interest rate | 220,650 | 233,503 | 13,208 | 14,665 |
| Debt securities – floating interest rate | – | – | 207 | – |
| | <u>222,928</u> | <u>235,729</u> | <u>13,532</u> | <u>15,082</u> |

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

(c) *Shares in subsidiary undertakings and other investments*

The Company has interests in the following principal subsidiaries at 30 September 2007, which, except where indicated, are registered in England and Wales:

| | <i>County of incorporation/ registration</i> | <i>% of ordinary shares held: The Company Subsidiary undertakings</i> | | <i>Overall effective % of share capital held</i> |
|---------------------------------------|------------------------------------------------------|----------------------------------------------------------------------------------|-----|--------------------------------------------------------------|
| 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 |
| Liquidity Management Division | | | | |
| R&Q Broking Services Limited | England | 100 | – | 100 |
| Reinsurance Finance Management Ltd | England | 75.5 | – | 75.5 |
| Investment/Property 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 |

16. Financial assets (continued)

(c) Shares in subsidiary undertakings and other investments (continued)

| | County of incorporation/ registration | % of ordinary shares held: The Company Subsidiary undertakings | | Overall effective % of share capital held |
|----------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------|-----|----------------------------------------------------|
| 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 | 2005 £'000 | 2004 £'000 |
|--------------------------------------------------|---------------|---------------|---------------|---------------|
| Debtors arising from direct insurance operations | 1,308 | 227 | – | 4 |
| Debtors arising from reinsurance operations | 27,116 | 23,540 | 7,699 | 10,373 |
| Insurance receivables | 28,424 | 23,767 | 7,699 | 10,377 |
| Trade debtors | 2,039 | 2,192 | 3,103 | 2,694 |
| Other debtors/receivables | 1,079 | 3,383 | 1,968 | 308 |
| Prepayments and accrued income | 4,281 | 4,153 | 1,501 | 1,756 |
| | <u>7,399</u> | <u>9,728</u> | <u>6,572</u> | <u>4,758</u> |
| | <u>35,823</u> | <u>33,495</u> | <u>14,271</u> | <u>15,135</u> |
| Due within 12 months | 35,318 | 32,827 | 14,271 | 15,135 |
| Due after 12 months | 505 | 668 | – | – |
| | <u>35,823</u> | <u>33,495</u> | <u>14,271</u> | <u>15,135</u> |

18. Cash and cash equivalents

| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
|------------------------------------|---------------|---------------|---------------|---------------|
| Cash in bank and at hand | 55,342 | 91,940 | 6,504 | 5,772 |
| Amount owed to credit institutions | (738) | (1,083) | (555) | (368) |
| | <u>54,604</u> | <u>90,857</u> | <u>5,949</u> | <u>5,404</u> |

Included in cash and cash equivalents is £375,000 (2006: £nil, 2005: nil, 2004: 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, 2005: nil, 2004: nil) 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 in escrow which can only be released with the approval of the appropriate regulatory authority.

19. Current income tax

| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
|-------------------------------|---------------|---------------|---------------|---------------|
| Current tax asset/(liability) | 786 | – | (30) | (5) |

20. Trade and other payables

| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
|----------------------------------------------------|---------------|---------------|---------------|---------------|
| Structured liabilities | 283,890 | 297,000 | 32,294 | 28,566 |
| Structured settlements | (283,890) | (297,000) | (32,294) | (28,566) |
| Net structured settlements | – | – | – | – |
| Creditors arising from reinsurance operations | 14,436 | 15,436 | 1,074 | 1,201 |
| Creditors arising from direct insurance operations | 3,134 | 3,109 | – | 211 |
| Insurance payables | 17,570 | 18,545 | 1,074 | 1,412 |
| Trade creditors | 438 | 1,242 | 652 | 662 |
| Other taxation and social security | 269 | 401 | 157 | 245 |
| Other creditors | 949 | 22,631 | 6,022 | 7,358 |
| Accruals and deferred income | 4,404 | 4,491 | 2,559 | 2,309 |
| | <u>23,630</u> | <u>47,310</u> | <u>10,464</u> | <u>11,986</u> |
| Due within 12 months | 23,192 | 46,852 | 10,464 | 11,986 |
| Due after 12 months | 438 | 458 | – | – |
| | <u>23,630</u> | <u>47,310</u> | <u>10,464</u> | <u>11,986</u> |

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 cashflows.

21. Financial Liabilities

a. Total financial liabilities

| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
|-------------------------------------|---------------|---------------|---------------|---------------|
| Preference D shares (note 21(b)) | – | 116 | 250 | – |
| Promissory note | – | 2,564 | – | – |
| Onerous lease provision | – | – | 197 | 316 |
| Amounts owed to credit institutions | 14,748 | 11,959 | 555 | 368 |
| | <u>14,748</u> | <u>14,639</u> | <u>1,002</u> | <u>684</u> |

Amounts due to credit institutions are payable as follows:

| | 2007 £'000 | 2006 £'000 | 2005 £'000 | 2004 £'000 |
|---------------------------|---------------|---------------|---------------|---------------|
| Less than one year | 2,768 | 3,808 | 555 | 368 |
| Between one to five years | 11,980 | 8,151 | – | – |
| More than 5 years | – | – | – | – |
| | <u>14,748</u> | <u>11,959</u> | <u>555</u> | <u>368</u> |

As outlined in Note 33 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 | 2005 £'000 | 2004 £'000 |
|-------------------------------------------|---------------|---------------|---------------|---------------|
| Authorised | | | | |
| Preference D shares of £1 each | 250 | 250 | 250 | – |
| Allotted, called up and fully paid | | | | |
| Preference D shares of £1 each | – | 116 | 250 | – |

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

22. Insurance contract provisions and reinsurance balances

Gross

| | <i>30 September</i> | <i>31 December</i> | <i>31 December</i> | <i>31 December</i> |
|------------------------------------------------------------------------------|---------------------|--------------------|--------------------|--------------------|
| | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Claims outstanding at 1 January | 543,504 | 105,173 | 92,808 | 4,914 |
| Claims paid | (41,154) | (25,583) | (5,505) | 27 |
| Increase in reserves arising from the acquisition of subsidiary undertakings | – | 499,383 | – | 89,221 |
| Strengthening/(release) of reserves | (6,352) | (3,480) | 6,351 | 374 |
| Net exchange differences | (15,798) | (31,989) | 11,519 | (1,728) |
| As at balance sheet date | <u>480,200</u> | <u>543,504</u> | <u>105,173</u> | <u>92,808</u> |

Reinsurance

| | <i>30 September</i> | <i>31 December</i> | <i>31 December</i> | <i>31 December</i> |
|------------------------------------------------------------------------------|---------------------|--------------------|--------------------|--------------------|
| | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Reinsurance share of claims outstanding | 286,673 | 97,280 | 84,281 | 61 |
| Reinsurance receivables | (21,943) | (11,079) | (2,207) | (117) |
| Increase in reserves arising from the acquisition of subsidiary undertakings | – | 228,400 | – | 85,618 |
| Strengthening/(release) of reserves | (5,802) | 496 | 7,193 | 57 |
| Net exchange differences | (10,472) | (28,424) | 8,013 | (1,338) |
| As at balance sheet date | <u>248,456</u> | <u>286,673</u> | <u>97,280</u> | <u>84,281</u> |

Net

| | <i>30 September</i> | <i>31 December</i> | <i>31 December</i> | <i>31 December</i> |
|------------------------------------------------------------------------------|---------------------|--------------------|--------------------|--------------------|
| | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Net claims outstanding at 1 January | 256,831 | 7,893 | 8,527 | 4,853 |
| Net claims paid | (19,211) | (14,504) | (3,298) | 144 |
| Increase in reserves arising from the acquisition of subsidiary undertakings | – | 270,983 | – | 3,603 |
| Strengthening/(release) of reserves | (550) | (3,976) | (842) | 317 |
| Net exchange differences | (5,326) | (3,565) | 3,506 | (390) |
| As at balance sheet date | <u>231,744</u> | <u>256,831</u> | <u>7,893</u> | <u>8,527</u> |

22. Insurance contract provisions and reinsurance balances (continued)

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.

As detailed in note 2 when preparing this financial information 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 financial information 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 increase net liabilities by £2,484,560 (31 December 2006, £2,866,730; 31 December 2005, £972,800; 31 December 2004, £842,810).

23. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30 per cent. (2006, 2005 and 2004 - 30 per cent.).

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.

| | <i>Deferred tax assets</i> £'000 | <i>Deferred tax liabilities</i> £'000 | <i>Total</i> £'000 |
|--------------------------------|-----------------------------------------|----------------------------------------------|-----------------------|
| At 1 January 2004 | 816 | (402) | 414 |
| Credit/(charge) for the year | (137) | (5,456) | (5,593) |
| At 31 December 2004 | 679 | (5,858) | (5,179) |
| Credit/(charge) for the year | (407) | (2) | (409) |
| At 31 December 2005 | 272 | (5,860) | (5,588) |
| Credit/(charge) for the year | 2,810 | 972 | 3,782 |
| At 31 December 2006 | 3,082 | (4,888) | (1,806) |
| Credit/(charge) for the period | 1,061 | 643 | 1,704 |
| At 30 September 2007 | 4,143 | (4,245) | (102) |

The movement on the deferred tax account is shown below:

| | <i>Accelerated capital allowances</i> £'000 | <i>Trading losses</i> £'000 | <i>Pension scheme surplus/ (deficit)</i> £'000 | <i>Other timing differences</i> £'000 | <i>Total</i> £'000 |
|----------------------|--------------------------------------------------------|------------------------------------|---------------------------------------------------------------|----------------------------------------------|-----------------------|
| At 1 January 2004 | (45) | 413 | 330 | (284) | 414 |
| Movement in year | (2) | (292) | 182 | (5,481) | (5,593) |
| At 31 December 2004 | (47) | 121 | 512 | (5,765) | (5,179) |
| Movement in year | 105 | 567 | (298) | (783) | (409) |
| At 31 December 2005 | 58 | 688 | 214 | (6,548) | (5,588) |
| Movement in year | (10) | (688) | (284) | 4,764 | 3,782 |
| At 31 December 2006 | 48 | – | (70) | (1,784) | (1,806) |
| Movement in year | (4) | 1,500 | 70 | 138 | 1,704 |
| At 30 September 2007 | 44 | 1,500 | – | (1,646) | (102) |

23. Deferred tax (continued)

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

| | <i>On acquisition of subsidiary £'000</i> | <i>Exchange adjustment £'000</i> | <i>Deferred tax in income statement £'000</i> | <i>Deferred tax in statement of recognised income and expense £'000</i> | <i>Total £'000</i> |
|------------------|---------------------------------------------------|------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------------------------|------------------------|
| Movement in 2004 | (5,778) | 128 | (237) | 294 | (5,593) |
| Movement in 2005 | – | (740) | 515 | (184) | (409) |
| Movement in 2006 | 2,605 | 597 | 834 | (254) | 3,782 |
| Movement in 2007 | – | 182 | 1,452 | 70 | 1,704 |

24. Share capital

Group and Company

| | <i>2007 £</i> | <i>2006 £</i> | <i>2005 £</i> | <i>2004 £</i> |
|-------------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Authorised | | | | |
| 100,000 Ordinary Shares 1p each | 1,000 | 1,000 | 1,000 | 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 | 120,000 | 120,000 | – |
| 250,000 Preference D Shares of £1 each | 250,000 | 250,000 | 250,000 | – |
| | <u>371,002</u> | <u>371,002</u> | <u>371,000</u> | <u>1,000</u> |
| Allotted, called up and fully paid | | | | |
| 25,000 Ordinary Shares 1p each | 250 | 250 | 250 | 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 | 250,000 | – |
| | <u>252</u> | <u>116,252</u> | <u>250,250</u> | <u>250</u> |
| Allotted, nil called | | | | |
| Preference C Shares of £1 each | – | – | – | – |
| | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Included in: | | | | |
| Equity | | | | |
| 25,000 Ordinary Shares 1p each | 250 | 250 | 250 | 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 | – | – | – | – |
| | <u>252</u> | <u>252</u> | <u>250</u> | <u>250</u> |
| Liabilities | | | | |
| Preference D Shares of £1 each | – | 116,000 | 250,000 | – |
| | <u>–</u> | <u>116,000</u> | <u>250,000</u> | <u>–</u> |

24. Share capital (continued)

Cumulative Redeemable Preference Shares

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

- Preference A Share, one half of all distributions arising from the Group's investment in R&Q Reinsurance 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 per cent. per annum and all distributions arising from the Company's investment in Cavell Management Services Ltd.

Preference A, Preference B and Preference C Shares are 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.

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.

25. Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent

| | <i>Share capital £'000</i> | <i>Share premium account £'000</i> | <i>Capital redemption reserve £'000</i> | <i>Retained profit £'000</i> | <i>Total £'000</i> |
|-------------------------------------|------------------------------------|------------------------------------------------|-----------------------------------------------------|--------------------------------------|------------------------|
| At 1 January 2007 | – | 1,022 | 134 | 50,460 | 51,616 |
| Total recognised income and expense | – | – | – | 4,777 | 4,777 |
| Redemption of Preference D shares | – | – | 116 | (116) | – |
| Equity dividends | – | – | – | (1,400) | (1,400) |
| At 30 September 2007 | <u>–</u> | <u>1,022</u> | <u>250</u> | <u>53,721</u> | <u>54,993</u> |

Year to 31 December 2006

| | <i>Share capital £'000</i> | <i>Share premium account £'000</i> | <i>Capital redemption reserve £'000</i> | <i>Retained profit £'000</i> | <i>Total £'000</i> |
|-------------------------------------|------------------------------------|------------------------------------------------|-----------------------------------------------------|--------------------------------------|------------------------|
| At 1 January 2006 | – | – | – | 13,011 | 13,011 |
| Total recognised income and expense | – | – | – | 39,358 | 39,358 |
| 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) | – |
| Equity dividends | – | – | – | (1,775) | (1,775) |
| At 31 December 2006 | <u>–</u> | <u>1,022</u> | <u>134</u> | <u>50,460</u> | <u>51,616</u> |

Year to 31 December 2005

| | <i>Share capital £'000</i> | <i>Share premium account £'000</i> | <i>Capital redemption reserve £'000</i> | <i>Retained profit £'000</i> | <i>Total £'000</i> |
|-------------------------------------|------------------------------------|------------------------------------------------|-----------------------------------------------------|--------------------------------------|------------------------|
| At 1 January 2005 | – | – | – | 11,318 | 11,318 |
| Total recognised income and expense | – | – | – | 1,693 | 1,693 |
| At 31 December 2005 | <u>–</u> | <u>–</u> | <u>–</u> | <u>13,011</u> | <u>13,011</u> |

| | <i>Share capital £'000</i> | <i>Share premium account £'000</i> | <i>Capital redemption reserve £'000</i> | <i>Retained profit £'000</i> | <i>Total £'000</i> |
|-------------------------------------|------------------------------------|------------------------------------------------|-----------------------------------------------------|--------------------------------------|------------------------|
| At 1 January 2004 | – | – | – | 5,056 | 5,056 |
| Total recognised income and expense | – | – | – | 6,262 | 6,262 |
| At 31 December 2004 | <u>–</u> | <u>–</u> | <u>–</u> | <u>11,318</u> | <u>11,318</u> |

26. Employee benefit trust

| | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
|-----------------------------------|--------------|--------------|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| At commencement of period | – | – | – | – |
| Payment to employee benefit trust | – | 400 | – | – |
| Allocated to employees | – | (400) | – | – |
| Balance at end of period | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> |

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

| | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
|-----------------------|--------------|---------------|---------------|--------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Wages and salaries | 6,334 | 9,542 | 8,782 | 7,560 |
| Social security costs | 839 | 1,436 | 1,325 | 1,154 |
| Pension costs | 735 | 1,371 | 551 | 572 |
| | <u>7,908</u> | <u>12,349</u> | <u>10,658</u> | <u>9,286</u> |

Pension costs include past service costs of £nil (2006 £461,000, 2005 £nil, 2004 £nil).

Average number of employees

| | <i>Number</i> | <i>Number</i> | <i>Number</i> | <i>Number</i> |
|-----------------------------|---------------|---------------|---------------|---------------|
| Group investment activities | 11 | 12 | 11 | 11 |
| Insurance services | 158 | 198 | 176 | 167 |
| | <u>169</u> | <u>210</u> | <u>187</u> | <u>178</u> |

Remuneration of the Directors and key management

| | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
|--------------------------------------|--------------|--------------|--------------|--------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Aggregate Director emoluments | 307 | 433 | 534 | 502 |
| Aggregate key management emoluments | 631 | 1,093 | 738 | 493 |
| Director pension contributions | 16 | 22 | 19 | 17 |
| Key management pension contributions | 45 | 55 | 52 | 44 |
| | <u>999</u> | <u>1,603</u> | <u>1,343</u> | <u>1,056</u> |

Highest paid director

| | | | | |
|----------------------|------------|------------|------------|------------|
| Aggregate emoluments | <u>182</u> | <u>242</u> | <u>319</u> | <u>301</u> |
| | <u>182</u> | <u>242</u> | <u>319</u> | <u>301</u> |

One Director has retirement benefits accruing under money purchase pension schemes (2006 – One, 2005 – One, 2004 – One).

28. Pension commitments

The assets of the defined benefit scheme are 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 | 2006 | 2005 | 2004 |
|-----------------------------------------|--------------|------------|--------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Total market value of scheme assets | 24,785 | 23,830 | 22,740 | 19,327 |
| Present value of scheme liabilities | (21,063) | (23,598) | (23,453) | (21,033) |
| Gross defined benefit asset/(liability) | <u>3,722</u> | <u>232</u> | <u>(713)</u> | <u>(1,706)</u> |

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 liabilities are:

| | 2007 | 2006 | 2005 | 2004 |
|----------------------------|------|------|------|------|
| Interest rate | 3.2% | 3.2% | 2.8% | 2.8% |
| Pension increase | 3.2% | 3.2% | 2.8% | 2.8% |
| Deferred pension increases | 3.2% | 3.2% | 2.8% | 2.8% |
| Discount rate | 5.1% | 5.1% | 4.8% | 5.2% |

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

| | 2007 | 2006 | 2005 | 2004 |
|--------------------------------------------------|------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| Current service cost (Operating expense) | (79) | (44) | (44) | (42) |
| Past service cost (Operating expense) | – | (461) | – | – |
| Interest cost (Other income) | (897) | (1,114) | (1,093) | (1,031) |
| Expected return on plan assets (Other income) | <u>976</u> | <u>1,608</u> | <u>1,406</u> | <u>1,332</u> |
| | <u>–</u> | <u>11</u> | <u>269</u> | <u>259</u> |

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.

28. Pension commitments (continued)

The amounts credit/(charged) directly to equity are:

| | 2007 | 2006 | 2005 | 2004 |
|------------------------------------------------------------------------------------------------------|--------------|------------|------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| Actual return less expected return on assets | 195 | 225 | 2,340 | 311 |
| Experience losses arising on obligations | (140) | 243 | (67) | (136) |
| Changes in assumptions | 3,435 | 378 | (1,659) | (1,155) |
| Restriction of pension assets (as required by IAS 19) | (3,722) | – | – | – |
| Total actuarial gains/(losses) credited/ (charged) in the statement of recognised income and expense | <u>(232)</u> | <u>846</u> | <u>614</u> | <u>(980)</u> |

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

| | 2007 | 2006 | 2005 | 2004 |
|--------------------------------------------------|--------------|------------|--------------|----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Surplus/(deficit) in the scheme at 1 January | 232 | (713) | (1,706) | (1,100) |
| Current service costs | (79) | (44) | (44) | (42) |
| Past service costs | – | (461) | – | – |
| Contributions by employer | 128 | 110 | 110 | 115 |
| Actuarial gain/(loss) | 3,146 | 846 | 614 | (980) |
| Other financial income | 295 | 494 | 313 | 301 |
| Surplus/(deficit) in the scheme at end of period | <u>3,722</u> | <u>232</u> | <u>(713)</u> | <u>(1,706)</u> |

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

| | 2007 | 2006 | 2005 | 2004 |
|-------------------|------|------|------|------|
| | % | % | % | % |
| Equity securities | 51.6 | 59.9 | 71.9 | 80.3 |
| Debt securities | 38.4 | 27.9 | 17.6 | 9.0 |
| Property | 7.0 | 6.8 | 4.6 | 1.2 |
| Cash | 3.0 | 5.4 | 5.9 | 9.5 |

29. Related party transactions

- (i) Until 3 March 2006 and 11 April 2006 respectively, Dukes Place Holdings LP (“Dukes Place”) had an indirect minority interest in CMSL and a direct minority interest in Cavell USA. During the year Renaissance Capital Partners Limited (“RCP”) provided management and other services to Dukes Place and its subsidiaries, with whom it had an exclusive agreement; the agreement ceased as at 31 December 2006. Fees amounting to £560,000 were earned in 2006 (2005: £580,000, 2004: £568,333). Dukes Place owed RCP £Nil at 31 December 2006 (2005: £Nil, 2004: £1,917).
- (ii) Mr K.E. Randall, a director and shareholder, provided a loan to the Company at an interest rate of 6.5 per cent. p.a. At 31 December 2006 the Company owed £Nil to Mr Randall (2005: £155,470, 2004: £169,995).
- (iii) Mr A.K. Quilter, a director and shareholder, provided a loan to the Company at an interest rate of 6.5 per cent. p.a. At 31 December 2006 the Company owed £Nil to Mr Quilter (2005: £55,555, 2004: £59,355).
- (iv) 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 £18,000 per annum.
- (v) Cavell Holdings Limited (“CHL”) owned a 25 per cent. interest in CMSL until 3 March 2006. Cavell Insurance Company Limited (“CICL”) and Unione Italiana (UK) Reinsurance Company Limited are subsidiaries of CHL. During the year CMSL provided management services to these companies amounting to £1,625,000 (2005: £2,381,000, 2004: £1,405,000).
- (vi) CMSL occupies property owned by CICL and has been granted a rent free period by CICL for the period from 1 January 2003 until 31 December 2007. At 31 December 2006 CMSL was owed £Nil by CICL (2005: £328,559 owed to CICL, 2004: £222,000 owed to CCL).
- (vii) Until 2006 Ken Randall was a director of Dukes Place Holdings Limited, the Bermudan general partner of Dukes Place, an exempt limited partnership domiciled in Bermuda. In 2003, Dukes Place acquired Cavell Insurance Company (“CIC”), of which CMSL was a wholly owned subsidiary. Dukes Place entered into an agreement with the Company pursuant to which the Company managed CMSL and granted the Company an option to purchase 75 per cent. of the issued share capital in CMSL for \$400,000, which it exercised in December 2003. The remaining 25 per cent. of the issued share capital was purchased by the company in 2006.

30. Operating Lease Commitments

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

Land and Buildings

| | 2007 | 2006 | 2005 | 2004 |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Expiring within one year | – | – | – | – |
| Expiring within two and five years | 2,510 | 2,510 | 1,063 | – |
| Expiring after five years | – | – | 1,142 | 2,205 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Other

| | 2007 | 2006 | 2005 | 2004 |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Expiring within one year | – | – | – | – |
| Expiring within two and five years | 108 | 108 | 26 | – |
| Expiring after five years | – | – | 82 | – |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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 30 September 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.

31. Acquisition of subsidiary undertakings

R&Q Reinsurance Company and its subsidiary

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

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net liabilities acquired was £8,043,000. Positive goodwill of £11,108,000 arose. The following table explains the fair value adjustments made to the book values of the major categories of assets and liabilities included in the consolidated Financial Information at the date of acquisition.

| | <i>Book Value</i> | <i>Adjustments</i> | <i>Fair value</i> |
|---------------------------------------------------------|-------------------|--------------------|-------------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Other financial investments | 14,000 | 440 | 14,440 |
| Other debtors | 11,525 | (100) | 11,425 |
| Cash | 189,999 | – | 189,999 |
| General insurance technical provisions | (274,252) | (67,626) | (341,878) |
| General insurance technical provisions reinsurers share | 104,927 | 41,580 | 146,507 |
| Other creditors | (28,536) | – | (28,536) |
| Run-off costs | – | (58,022) | (58,022) |
| Future investment income | – | 58,022 | 58,022 |
| Net assets acquired | <u>17,663</u> | <u>(25,706)</u> | <u>(8,043)</u> |
| Satisfied by | | | |
| Promissory note | | | (2,564) |
| Preference A share issued | | | (341) |
| Acquisition costs paid | | | (160) |
| Positive goodwill (see note 14) | | | <u>(11,108)</u> |

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

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

| | |
|------------------------|--------------|
| | <i>£'000</i> |
| Profit before taxation | 2,905 |
| Taxation | – |
| Profit after taxation | <u>2,905</u> |

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

31. Acquisition of subsidiary undertakings (continued)

R&Q Reinsurance Company and its subsidiary (continued)

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

R&Q Reinsurance Company (UK) Limited

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

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

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

| | <i>Book Value</i> | <i>Adjustments</i> | <i>Fair value</i> |
|-----------------------------------------------------------|-------------------|--------------------|-------------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Deposits with ceding undertakings | 627 | – | 627 |
| Debtors arising from insurance operations | 1,641 | – | 1,641 |
| Other debtors | 1 | – | 1 |
| Cash | 65,752 | – | 65,752 |
| General insurance technical provisions | (67,597) | (6,103) | (73,700) |
| General insurance technical provisions – reinsurers share | 32,990 | 9,076 | 42,066 |
| Deferred taxation | – | – | – |
| Creditors arising from insurance operations | (12,327) | – | (12,327) |
| Other creditors | (8,910) | – | (8,910) |
| Run-off costs | – | (21,848) | (21,848) |
| Future investment income | – | 21,848 | 21,848 |
| Net assets acquired | <u>12,177</u> | <u>2,973</u> | <u>15,150</u> |
| Satisfied by | | | |
| Capital subscribed | | | (1,275) |
| Preference B share issued | | | (681) |
| Other acquisition costs paid | | | <u>(220)</u> |
| Negative goodwill | | | <u>12,974</u> |

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

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

| | |
|------------------------|---------------|
| | <i>£'000</i> |
| Profit before taxation | 11,017 |
| Taxation | – |
| Profit after taxation | <u>11,017</u> |

31. Acquisition of subsidiary undertakings (continued)

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

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

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

Chevanstell Limited and its subsidiary

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

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

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

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

The main fair value adjustments arise from the reversal of discounting and the recognition of future investment income.

31. Acquisition of subsidiary undertakings (continued)

Chevanstell Limited and its subsidiary (continued)

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

| | £'000 |
|------------------------|--------------|
| Profit before taxation | 1,136 |
| Taxation | – |
| Profit after taxation | <u>1,136</u> |

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

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

Arran Insurance Company Limited

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

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

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

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

31. Acquisition of subsidiary undertakings (continued)

Arran Insurance Company Limited (continued)

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

| | |
|------------------------|--------------|
| | <i>£'000</i> |
| Profit before taxation | 698 |
| Taxation | – |
| Profit after taxation | <u>698</u> |

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

Transport Insurance Company, and its wholly owned subsidiary Instech Corporation

| | <i>Book Value</i> | <i>Adjustments</i> | <i>Fair Value</i> |
|----------------------------------------------------------|-------------------|--------------------|-------------------|
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| Other financial investments | 13,025 | – | 13,025 |
| Debtors arising from insurance operations | 10,085 | – | 10,085 |
| Other debtors | 1,092 | – | 1,092 |
| Cash | 3,058 | – | 3,058 |
| General insurance technical provisions | (88,058) | (1,163) | (89,221) |
| General insurance technical provisions – reinsurer share | 85,618 | – | 85,618 |
| Deferred taxation | (7,709) | 1,931 | (5,778) |
| Creditors arising from insurance operations | (2,187) | – | (2,187) |
| Other creditors | (633) | – | (633) |
| Loans | (6,614) | – | (6,614) |
| | <u>7,677</u> | <u>768</u> | <u>8,445</u> |
| Satisfied by | | | |
| Cost of shares | | | – |
| Acquisition costs paid | | | (230) |
| Negative goodwill | | | <u>8,215</u> |

The following information relates to Transport Insurance Company in respect of periods prior to acquisition.

Summarised profit and loss account for the period 1 January 2004 to date of acquisition:

| | |
|------------------------------|-----------------|
| | <i>£'000</i> |
| Balance on Technical Account | (13,044) |
| Taxation | (8,767) |
| Loss after taxation | <u>(21,811)</u> |

Audited financial statements under UK GAAP were not prepared for Transport in respect of 2003. An audited Annual Statement for 2003 was prepared for regulatory purposes under US Statutory Accounting Principles, which are not wholly comparable with UK GAAP. The Annual Statement for 2003 disclosed a profit after tax for the year ended 31 December 2003 of £1,815,119.

Other

During 2006 the Group acquired the minority interests in Cavell Management Services Limited, Renaissance Capital Partners Limited and Cavell USA Inc, for an aggregate cash consideration of £16,775. After fair value adjustments these gave rise to negative goodwill of £561,000.

31. Acquisition of subsidiary undertakings (continued)

Summary of goodwill on acquisition

Total positive goodwill arising in 2006 amounted to £11,108,000 which has been included in intangible assets (see note 14).

Total negative goodwill arising in 2006 amounted to £35,958,000, which can be analysed as follows:

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

Total negative goodwill arising in 2004 amounted to £8,215,000 in respect of the acquisition of Transport Insurance Company.

These amounts are credited to the income statement.

32. Contingent liabilities

As a condition of the acquisition of the Brandywine Companies, the Company entered into an assignment, assumption and indemnity agreement to counter-indemnify the ACE Group in respect of two guarantees given by ACE in favour of the ILU for 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 the likelihood of either of these counter-indemnities ever being called upon is very unlikely.

33. Intercompany 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 30 September 2007 is £14,727,216 (31 December 2006: £11,959,487, 2005 and 2004: £Nil).

34. Auditors

Littlejohn Frazer (a predecessor firm of CLB Littlejohn Frazer) a member of the Institute of Chartered Accountants in England and Wales, were the auditors who reported on the Randall & Quilter Investment Holdings Limited financial statements for the years ended 31 December 2003 and 31 December 2004. CLB Littlejohn Frazer, a member of the Institute of Chartered Accountants in England and Wales, were the auditors who reported on the Randall & Quilter Investment Holdings Limited financial statements for the years ended 31 December 2005 and 31 December 2006. CLB Littlejohn Frazer's and Littlejohn Frazer's address is 1 Park Place, Canary Wharf, London E14 4HJ.

PART VI

UNAUDITED PRO-FORMA STATEMENT OF NET ASSETS

Set out below is an unaudited pro-forma statement of net assets of the Group which has been prepared for illustrative purposes only to show the effect of the Placing and Admission had the Placing and Admission occurred on 30 September 2007. The pro-forma statement of net assets has been prepared for illustrative purposes only, and because of its nature it may not give a true reflection of the Group's financial position or results.

| | <i>Group consolidated net assets as at 30 September 2007 (Note 1) £'000</i> | <i>Placing of Ordinary Shares (Note 2) £'000</i> | <i>Repayment of bank financing (Note 3) £'000</i> | <i>Unaudited Pro-forma adjusted net assets of the Group on Admission £'000</i> |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Assets | | | | |
| Intangible assets | 11,982 | – | – | 11,982 |
| Property, plant & equipment | 215 | – | – | 215 |
| Investment properties | 1,022 | – | – | 1,022 |
| Financial assets | | | | |
| – Investments | 222,928 | – | – | 222,928 |
| – Deposits with ceding undertakings | 3,710 | – | – | 3,710 |
| Reinsurers' share of insurance liabilities | 248,456 | – | – | 248,456 |
| Corporation tax | 786 | – | – | 786 |
| Deferred tax asset | 4,143 | – | – | 4,143 |
| Insurance and other receivables | 35,823 | – | – | 35,823 |
| Cash and cash equivalents | 55,342 | 17,063 | (14,010) | 58,395 |
| Total assets | 584,407 | 17,063 | (14,010) | 587,460 |
| Liabilities | | | | |
| Insurance contract provisions | 480,200 | – | – | 480,200 |
| Financial liabilities | | | | |
| – Amounts owed to credit institutions | 14,748 | – | (14,010) | 738 |
| – Deposits received from reinsurers | 6,557 | – | – | 6,557 |
| Deferred tax liabilities | 4,245 | – | – | 4,245 |
| Trade and other payables, including insurance payables | 23,630 | – | – | 23,630 |
| Total liabilities | 529,380 | – | (14,010) | 515,370 |
| Net assets after minority interests | 55,027 | 17,063 | – | 72,090 |

Notes

The pro-forma statement of net assets has been prepared on the following bases:

1. The net assets of Randall & Quilter as at 30 September 2007 have been extracted without adjustment from the financial information included in Part V of the Admission Document.
2. An adjustment has been made to reflect the issue of 16 million Ordinary Shares at a price of 125p per share and the net proceeds of the Placing received by the Company of £17.06 million (net of commissions and placing costs of £2.94 million excluding VAT).
3. An adjustment has been made to reflect the proposed repayment of bank loans totalling £14,010,000.
4. The pro-forma statement of net assets does not constitute financial statements within the meaning of section 240 of the Act.

The Directors
Randall & Quilter Investment Holdings plc
9-13 Fenchurch Buildings
London
EC3M 5HR

The Directors
Noble & Company Limited
120 Old Broad Street
London
EC2N 1AR

The Directors
Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

13 December 2007

Dear Sirs

Report on the pro-forma net assets statement of Randall & Quilter Investment Holdings plc

We report on the pro-forma financial information set out in Part VI of the Admission Document dated 13 December 2007, which has been prepared on the basis described in notes 1 to 4, for illustrative purposes only, to provide information about how the Placing and Admission might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the Directors of Randall & Quilter Investment Holdings plc to prepare the pro-forma financial information.

It is our responsibility to form an opinion as to the proper compilation of the pro-forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purposes of making this report, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro-forma financial information with the Directors of Randall & Quilter Investment Holdings plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that pro-forma financial information has been properly compiled on the basis stated and such basis is consistent with the accounting policies of Randall & Quilter Investment Holdings plc.

Opinion

In our opinion:

- The pro-forma statement of net assets has been properly compiled on the bases set out therein;
- Such bases are consistent with the accounting policies of Randall & Quilter Investment Holdings plc;
and
- The adjustments are appropriate for the purposes of the pro-forma financial information as disclosed.

Yours faithfully

CLB Littlejohn Frazer

PART VII

REGULATION

1. FSA Regulation

1.1 *FSA Regulation – General*

On 1 December 2001, the FSA assumed its full powers and responsibilities as the single statutory regulator responsible for regulating the financial services industry in respect of the carrying on of “regulated activities” (including deposit taking, insurance, insurance mediation (added in January 2005), investment management and most other financial services carried on by way of business in the UK), with the objective of maintaining confidence in the UK financial system, providing public understanding of the system, securing a proper degree of protection for consumers and helping to reduce financial crime. It is an offence for any person to carry on a regulated activity in the UK unless that person is authorised by the FSA and has been granted permission to carry on that regulated activity or falls under an exemption.

The FSA’s rules are contained in its Handbook of Rules & Guidance, two parts of which are the “General Prudential Sourcebook” (“GENPRU”) and the “Prudential Sourcebook for Insurers” (“INSPRU”). Insurance business (which includes reinsurance business) is authorised and supervised by the FSA. Insurance business in the UK is divided between two main categories: long-term insurance (which is primarily investment-related) and general insurance. With a few exceptions, it is not possible for a new insurance company to become authorised to effect and carry out both long-term and general insurance business. Each of those two categories are divided into “classes” (for example: permanent health and pension fund management are two classes of long-term insurance; damage to property and motor vehicle liability are two classes of general insurance). Under the FSMA, effecting or carrying out contracts of insurance, within a class of general or long-term insurance, by way of business in the UK, constitutes a regulated activity requiring individual authorisation. An authorised insurance company must have permission both to “effect” and “carry out” each class of insurance business it intends to write. An authorised insurance company in run-off must have permission to “carry out” each class of insurance business it intends to run-off (as it writes no new business, there is no need for it to be authorised to “effect” contracts of insurance).

In addition, under the FSMA, the carrying out of insurance mediation activities by way of business in the United Kingdom requires authorisation. Insurance mediation activities include dealing in insurance contracts as an agent, arranging deals in insurance contracts and assisting in the administration and performance of insurance contracts.

Randall & Quilter has a number of companies within its Group which are authorised by the FSA. Cavell Management Services Limited is authorised as an insurance intermediary and has permission to carry on the following regulated activities in relation to non-investment insurance contracts: advising on non-investment insurance contracts, arranging (bringing about) deals in investments, assisting in the administration and performance of non-investment insurance contracts, dealing in investments as agent, making arrangements with a view to transactions in investments and agreeing to carry on a regulated activity. Each such authorised firm may carry on its activities in Member States of the EEA subject to the provision of a notice prior to commencement of activities to the FSA. Insurance mediation activities must be conducted in accordance with Insurance Conduct of Business sourcebook module from the FSA Handbook (“ICOB”).

Cavell Managing Agency Limited (“CMAL”) is authorised both by Lloyd’s and by the FSA. The FSA authorises CMAL in respect of the following activities required to act as a managing agent at Lloyd’s namely, arranging deals in insurance, dealing as an agent in insurance, making arrangements with a view to transactions in insurance and managing the underwriting capacity of a Lloyd’s syndicate.

Chevanstell, Arran and R&Q Re (UK) are all insurance companies in run-off and authorised by the FSA to carry out in the UK contracts of insurance and in R&Q Re (UK)'s case, reinsurance only. Chevanstell and R&Q Re (UK) are authorised in all classes of general insurance business, other than the class of insurance known as "assistance" insurance. Arran is authorised, in all classes save for Aircraft, Aircraft liability, Goods in transit, Liability for ships, Ships and "assistance". As authorised insurers and reinsurers in the UK, each of Chevanstell, Arran and R&Q Re (UK) are able to operate throughout the EEA, subject to certain regulatory requirements of the FSA and in some cases, certain local regulatory requirements. An insurance company with FSA authorisation to carry out insurance business in the UK may provide cross-border services in other Member States of the EEA subject to notifying the FSA prior to commencement of the provision of services and to the FSA not having good reason to refuse consent. As an alternative, such an insurance company may establish a branch office within another Member State subject to notifying the FSA prior to the establishment of the branch and the FSA not having good reason to refuse consent; in both cases the FSA will also notify the local regulatory body that may advise additional requirements specific to its jurisdiction applying to the operation of the proposed classes of insurance business.

As FSA authorised insurers and reinsurers, Chevanstell, Arran and R&Q Re (UK) are subject to close supervision by the FSA. The FSA has prescribed requirements for senior management arrangements, systems and controls of insurance companies under its jurisdiction which must be complied with, and emphasises risk identification and management in relation to the financial and operational condition of insurance business in the UK. INSPRU and the senior management arrangements Systems and Controls also contain requirements in respect of prudential risk management and associated systems and controls. Chevanstell, Arran and R&Q Re (UK) are also required to comply with the FSA's conduct of business rules in connection with the regulation of the administration of general insurance.

1.2 *Supervision*

The FSA carries out the supervision of insurance companies through a variety of methods, including the collection of information from statistical returns and annual financial statements, skilled persons reports, visits to insurance companies and regular formal interviews.

The FSA has adopted a risk-based approach to the supervision of insurance companies. Under this approach the FSA periodically performs a formal risk assessment of insurance companies and groups carrying on business in the UK, which varies in length according to the risk profile of the insurer. The FSA performs the risk assessment by analysing information which it receives during the normal course of its supervision, such as regular prudential returns on the financial position of the insurance company, or which it acquires through a series of meetings with senior management of the insurance company. After each risk assessment, the FSA will inform the insurer of its views on the insurer's risk profile. This will include details of any remedial action that the FSA requires and the likely consequences if this action is not taken.

As a Lloyd's managing agent, CMAL is also subject to the supervision of Lloyd's in respect of its day to day business. While Lloyd's is itself subject to regulation by the FSA, CMAL will be expected to meet the standards imposed on participants in the Lloyd's market. The FSA has recently (3/10/07) published an arrangement it entered in with the Society of Lloyd's in August 2007 which provides the framework for the FSA and Lloyd's to work together on authorisation, supervision and enforcement matters relating to firms (such as CMAL) operating in Lloyd's market. The FSA and Lloyd's jointly supervise managing agents such as CMAL looking at risk reviews and material issues and risks including market events impacting on the managing agents. Further there are detailed systems and controls governing managing agents with which CMAL must comply.

Renaissance Capital Partners Limited was also supervised by the FSA, as investment adviser and was therefore subject to the provisions of the prudential requirements as investment firms, contained in the sourcebooks, IPRU-INV and BIPRU. The Directors have now obtained deregistration of Renaissance Capital Partners Limited.

1.3 *Capital Adequacy Requirements*

The General Prudential Sourcebook (GENPRU) requires an insurance company to maintain capital resources equal to or in excess of its capital resources requirement (formerly known as a margin of solvency) at all times in respect of any general insurance undertaken by the insurance company. The method of calculation of the capital resources requirement is set out in the Prudential Sourcebook for Insurers (INSPRU), and assets held in respect of capital resources are subject to specific valuation rules. The insurer's assets must be adequately diversified across different counterparties; assets must be held in currencies to match insurance liabilities; and some assets are restricted in part or in their entirety, according to rules set out in INSPRU. Failure to maintain capital resources in excess of the capital resources requirement is one of the grounds on which wide powers of intervention conferred upon the FSA may be exercised.

Chevanstell and Arran as well as R&Q Re (UK) are each required to maintain their capital resources following requirements set out in the FSA Handbook at GENPRU but stemming from the European Insurance Directives. At all times an insurer is required to maintain capital resources equal to or in excess of its capital resources requirement (CRR). The CRR for an insurer carrying on general insurance business such as Chevanstell or Arran is the MCR (minimum capital requirement, also known as the RMM (required minimum margin)).

The MCR is calculated by reference to the base capital resources requirement. It is in effect, the higher of the base capital resources requirement (set out in the relevant Directive) and the general insurance capital requirement based on a calculation required to be made by the FSA. The base capital resources requirement for insurers such as Arran or Chevanstell, is €3.2 million.

For pure reinsurers such as R&Q Re (UK), the same base capital resources requirement of €3.2 million also applies. In each case, €3.2 million is going to be the absolute minimum CRR.

CRR may be higher where the general insurance requirement exceeds €3.2 million. The general insurance requirement is calculated as the highest of:

- (i) the premiums amount;
- (ii) the claims amount; and
- (iii) the brought forward amount.

Which means in effect that the CRR for each of Chevanstell, Arran and R&Q Re (UK) is:

- (i) the sum of 18 per cent. of the first €53.1 million and 16 per cent. of the excess over €53.1 million of the higher of gross written and gross earned premiums (for these purposes premiums relating to certain categories of liability are uplifted by 50 per cent.) for the financial year (but where a financial year does not have 12 months the gross premium is adjusted to arrive at a figure that is proportionate to a 12-month financial year) less an allowance for anticipated reinsurance recoveries;
- (ii) the sum of 26 per cent. of the average claims incurred (for these purposes claims relating to certain categories of liability business are increased by 50 per cent.) for the first €37.2 million of claims and 23 per cent. of the average claims incurred for claims comprising the excess over €37.2 million, as measured over a 36-month period less an allowance for anticipated reinsurance recoveries; and
- (iii) the general insurance capital requirement for the prior financial year multiplied by the ratio (if it is less than or equal to 100 per cent.) expressed as a percentage, of provisions (net of reinsurance) for claims outstanding at the end of the financial year to provisions (net of reinsurance) for claims outstanding at the beginning of the prior financial year.

As all of Chevanstell, Arran and R&Q Re (UK) may conduct business requiring an equalisation reserve, they may be required to maintain an equalisation provision, calculated in accordance with the

provisions of INSPRU. The equalisation provision is deducted from capital when considering whether capital adequacy tests are met.

Each of the Euro amounts referred to in this paragraph are subject to increases in future years.

An insurer is required to review its own capital needs to assess whether it has sufficient resources to ensure that there is no significant risk that its liabilities cannot be met as they fall due. This process is called the Individual Capital Assessment (“ICA”). If an insurer’s assessment is that it should have more capital than is required under the capital resources requirement then the FSA would expect the insurer to hold the additional amount. In order to carry out the assessment as to the necessary financial resources that are required, an insurer is required to identify the major sources of risk to its ability to meet its liabilities as they fall due, and to carry out stress and scenario tests to identify an appropriate range of realistic adverse scenarios in which the risk crystallises and to estimate the financial resources needed in each of the circumstances and events identified. Further, insurers are required to calculate an Enhanced Capital Requirement (“ECR”), which is a risk-based formulaic calculation for calculating capital needs. Although the ICA and ECR are not formal solvency requirements, the FSA may review an insurer’s ICA and its ECR to consider whether it has adequate capital resources. If the FSA considers that there are insufficient capital resources it can give individual capacity guidance advising the insurer of the amount and quality of capital resources that it considers necessary for that insurer. If the insurer ignores, or disagrees with, the individual capital guidance, the FSA may seek to vary its permission or to impose a requirement upon the insurer.

In addition, a UK insurer that is part of a group, is required to perform and submit to the FSA a Group Capital Adequacy Report in respect of its ultimate insurance parent undertaking and the EEA insurance parent undertaking, in accordance with the FSA’s rules. The calculation at the level of the EEA parent undertaking is required to be publicly available and is required to show a positive result. The FSA is required to take action where it considers that the solvency of the insurance company is or may be jeopardised due to the group solvency position. The purpose of these proposals is to prevent leveraging of capital arising from involvements in other group insurance firms.

Given the current structure of the Company’s group, this regulatory obligation will apply to Chevanstell, Arran and R&Q Re (UK) and potentially impact on the Company, because Chevanstell, Arran and R&Q Re (UK) will together form an insurance group, of which the Company is the UK holding company. Chevanstell, Arran and R&Q Re (UK) will each need to ensure that it maintains sufficient capital resources so that there is a surplus of group capital resources over the group capital resources requirement at the level of the Company or at a higher level of the Group (such as at the level of the ultimate EEA parent undertaking). It is possible that the effect of this requirement will be a need for additional capital at the level of the Company. Further, an insurer is required to report in its annual returns to the FSA all material related party transactions (eg, intra group reinsurance, whose value is more than 5 per cent. of the insurer’s general insurance business amount).

The FSA has implemented a rule in GENPRU under which it is required to test its group solvency at the level of the EEA insurance group.

Persons who are authorised as insurance intermediaries are also subject to minimum capital resource requirements under the FSA rules. For an insurance intermediary, such as Cavell Management Services Limited, that does not hold client money, an authorised intermediary is required to have capital equal to the higher of £5,000 and 2.5 per cent. of the annual income it derives from its insurance mediation activities. Further, insurance intermediaries are required to have in place and maintain professional indemnity insurance that provides a minimum level of indemnity of €1 million for any single claim and an aggregate €1.5 million, or if higher, 10 per cent. of annual income up to £30 million. The policy in relation to an intermediary that does not hold client money must not have an excess of more than the higher of £2,500 and 1.5 per cent. of annual income. However, an intermediary does have the option of seeking a higher excess provided it holds additional capital calculated in accordance with the FSA rules as set out in INSPRU.

CMAL, as a Lloyd's managing agency must manage the capital resources of the syndicate and its members in accordance with the same requirements as apply to insurers above. Managing agents themselves have to comply with the FSA's Conduct of Business requirements and Systems and Controls. In addition; they are charged with monitoring the prudential state of the Lloyd's syndicate and the syndicate members, rather than meeting prudential requirements themselves.

Renaissance Capital Partners Limited, as an investment adviser, was subject to minimum capital requirements. The Directors have obtained the deregistration of Renaissance Capital Partners Limited.

Minimum Capital Requirements

Determining how minimum capital requirements are calculated is a two-stage process. The first step is to assess whether a firm is an 'own account dealer', a 'matched principal broker', a 'broker/manager' or an 'advisor/arranger'. This categorisation determines the base capital resources requirement of the firm in line with GENPRU.

The second step involves assessing the method of minimum capital requirement calculation that a firm must use. The default methodology is the higher of the base capital requirement or the sum of credit risk, market risk and operational risk. This default does not apply to 'limited licence' and 'limited activity' firms, which will not have to calculate an operational risk charge.

'Limited licence' firms will have to calculate their minimum capital resource requirement as the higher of their base requirement or the sum of credit and market risk requirements or their fixed overheads requirement (FOR). This represents a change from the current additive approach. The minimum capital resource requirements for 'limited activity' firms will be calculated as the higher of the base requirement or the sum of credit risk, market risk and FOR.

The two steps are not linked, except for 'brokers/managers' and 'advisors/arrangers', which would automatically fall into the 'limited licence' category.

Restrictions on dividend payments

UK company law prohibits a company from declaring a dividend to its shareholders unless it has "profits available for distribution". The determination of whether a company has profits available for distribution is based on its accumulated realised profits less its accumulated realised losses. While the FSA rules impose no statutory restrictions on a general insurer's ability to declare a dividend, the FSA strictly controls the requirement for insurers within its jurisdiction to maintain a surplus of capital resources over its capital resources requirement.

1.4 Reporting requirements

UK insurance companies and insurance intermediaries must prepare their financial statements under the Companies Act which requires the filing with Companies House of audited financial statements and related reports. In addition, UK insurance companies and, to a lesser extent, insurance intermediaries, are required to file regulatory returns with the FSA, which include a statement of solvency; components of capital resources; calculation of the general insurance capital requirement; analysis of admissible assets and liabilities; a profit and loss account and detailed breakdown of premiums and claims in prescribed forms. Under the Interim Prudential Sourcebook for Insurers, audited regulatory returns must be filed with the FSA within two months and 15 days (or three months where the delivery of the return is made electronically) after year-end. The company's ECR calculation is required to be submitted at the same time, though this is not a matter of public record.

An audited Group Capital Adequacy Report, setting out the solvency of the worldwide and the EEA insurance group, is required to be submitted to the FSA within four months of the year-end. A part of this is publicly discloseable at the level of the EEA insurance parent undertaking, but not the worldwide insurance parent if that company is outside the EEA.

1.5 *Supervision of management*

The FSA closely supervises the management of insurance companies and insurance intermediaries through the approved persons regime, by which any appointment of persons to perform certain specified “controlled functions” within a regulated entity, must be approved by the FSA.

1.6 *Change of control*

The FSA regulates the acquisition of “control” of any UK insurance company authorised under FSMA. Any company or individual that (together with its or his associates) directly or indirectly acquires 10 per cent. or more of the shares in a UK authorised insurance company or its parent company, or is entitled to exercise or control the exercise of 10 per cent. or more of the voting power in such authorised insurance company or its parent company, would be considered to have acquired “control” for the purposes of the relevant legislation, as would a person who had significant influence over the management of such authorised insurance company or its parent company by virtue of his shareholding or voting power in either. A purchaser of 10 per cent. or more of the ordinary shares of the Company, which is a parent company of Chevanstell, Arran or R&Q Re (UK), would therefore be considered to have acquired “control” of Chevanstell, Arran and R&Q Re (UK).

The FSA also regulates the acquisition of control of any UK insurance intermediary (such as Cavell Management Services Limited). In relation to insurance intermediaries the test for control is the same as described above except that the threshold that must be crossed to trigger a requirement to seek FSA approval is 20 per cent. rather than 10 per cent.

Under the FSMA, any person proposing to acquire “control” over a UK authorised insurance company must give prior notification to the FSA of his intention to do so. The FSA would then have three months to consider that person’s application to acquire “control.” In considering whether to approve such application, the FSA must be satisfied that both the acquirer is a fit and proper person to have such “control” and that the interests of consumers would not be threatened by such acquisition of “control.” Failure to make the relevant prior application could result in action being taken against the relevant regulated entity (i.e. any of Chevanstell, Arran or R&Q Re (UK), CMAL or Cavell Management Services Limited) by the FSA, such as the restriction on the payment of dividends or exercise of voting rights under such shares and/or seek a court order for the sale of such shares. Furthermore, such person acquiring control without FSA approval would be guilty of a criminal offence under section 191 of FSMA.

1.7 *Intervention and enforcement*

The FSA has extensive powers to intervene in the affairs of an authorised person, culminating in the ultimate sanction of the withdrawal of permission to carry on a regulated activity. The FSMA imposes on the FSA statutory obligations to monitor compliance with the requirements imposed by the FSMA, and to enforce the provisions of the FSMA-related rules made by the FSA. The FSA has power, among other things, to enforce and take disciplinary measures in respect of breaches of its rules, including both the Prudential Sourcebook for Insurers and breaches of the conduct of business rules generally applicable to authorised persons.

The FSA also has the power to institute proceedings for criminal offences arising under the FSMA, and to institute proceedings for the offence of insider dealing under Part V of the Criminal Justice Act of 1993, and breaches of money laundering regulations. The FSA’s stated policy is to pursue criminal prosecution in all appropriate cases.

1.8 *Fees and levies*

As authorised insurers in the United Kingdom which are in run-off, Chevanstell, Arran or R&Q Re (UK) are subject to FSA fees but, as they do not write new business, will not be subject to levies known as the Financial Ombudsman Services (“FOS”) levies, nor the Financial Services Compensation Scheme (“FSCS”) levies.

As an insurance intermediary, CMSL, will be required to pay annual fees and levies to the FSA. The amount of fees and levies are calculated by reference to the income it derives from its insurance mediation activities. It is unlikely that such fees are material. In addition to fees it pays to the FSA on a similar basis to CMSL, CMAL will need to pay fees to Lloyd's.

2. Belgian regulation

2.1 *Current Belgian regulation*

As Article 2 of the law relating to the supervision of insurance undertakings of 9 July 1975, excludes reinsurance undertakings from its scope, reinsurance undertakings are currently not subject to regulations nor supervision of the Belgian Banking, Finance and Insurance Commission ("CBFA"). Reinsurance activities are subject to supervision of CBFA only when the undertaking also has insurance activities. R&Q Reinsurance Company (Belgium) has only reinsurance business in run-off, and therefore is not subject to the supervision of CBFA.

2.2 *Future regulation after implementation of Directive 2005/68/EC*

The draft bill for transposing Directive 2005/68/EC to Belgian law, in its actual drafting which is still subject to review by the Parliament, should be voted on during December 2007. It is thought likely that the CBFA will take the opportunity of the passing of this new bill to impose a set of regulations and solvability requirements on reinsurance undertakings in run-off and that the Group's reinsurance activities in Belgium may therefore be regulated.

2.3 *La Metropole*

La Metropole has ceased to underwrite new business since 1994 and has been in run-off since that time. With respect to its portfolio, La Metropole is still subject to some regulatory requirements under the supervision of the CBFA and has to report to the CBFA in respect of those matters.

3. US regulation

3.1 The business of insurance in the US is subject to the laws and regulations of the various states. Each state has its own body of insurance laws and regulations, some of which are uniform to all states and some of which are unique to the particular state. Despite some uniformity amongst the states, the laws and regulations are subject to varying interpretations by each state's regulators and courts. Accordingly, the law of any particular state could differ, perhaps significantly, from that set forth generally herein. Generally, however, the following laws and regulations could affect the Group business.

3.2 *State regulation of insurers*

Generally speaking, insurance companies domiciled in the US are regulated by insurance authorities in any of the fifty states where such insurance companies are domiciled or where they are licensed or accredited or eligible to conduct an insurance business.

State insurance regulators have broad regulatory powers with respect to various aspects of the insurance business, including the organisation of an insurance company, regulation of insurance holding companies, licensure to transact business, admittance of assets to statutory surplus, regulation of unfair trade and claims practices, establishment of reserve requirements and solvency standards, regulation of investments and dividends, and the rehabilitation and liquidation of insurance companies. State insurance laws and regulations require insurers to file periodic financial statements and reports with insurance departments in every state where they are licensed or accredited or eligible to conduct insurance business. US insurers are subject to periodic examination by state insurance regulatory departments. Also, an annual report with respect to the financial condition of the filer is filed in the domicile state and with the National Association of Insurance Commissioners ("NAIC") (see below) in accordance with NAIC forms, manuals and required accounting practices. In addition, quarterly reports may be required by individual states.

3.3 *US insurance holding company regulation*

An insurance holding company consists of two or more affiliated entities, one of which is an insurance company.

US insurance companies are subject to the insurance holding company laws of the states where they are domiciled. These laws require the insurance company to register with the state insurance regulators and to furnish organisational, financial and other information concerning relationships with affiliates within the insurance holding company system. Generally, all material transactions among affiliates within the holding company system affecting an US insurer, including intercompany sales, loans, reinsurance agreements, service agreements and dividend payments, must be fair and reasonable and, if material or of a specified category, these transactions may require prior notice and approval or non-disapproval by the insurance regulator.

In particular, insurers are required to file an annual registration statement which includes basic information about the filer and controlling person(s) and financial information as to each, amendments to such filings, and prior notice of certain transactions among affiliated entities.

3.4 *Acquisition of control of a US insurance company*

Before any entity can acquire control of an insurance company domiciled in any US state by purchase of shares or merger or otherwise, the acquisition of control must be pre-approved by the domiciliary state's insurance regulator, as well as subsequently approved by any other states where the company is licensed. The insurance regulator will ordinarily consider various factors, including the ability of the insurance company to continue to satisfy the state's requirements for the authorized lines of insurance, the financial strength of the acquiring person or entity, the competence, integrity and management experience of the applicant, plans for the future operations of the insurer, protection of policy holders and any possible anticompetitive results that may arise from the proposed acquisition of control.

"Control" over a US domiciled insurer is generally presumed to exist if any person directly or indirectly owns, controls, holds with the power to vote, or holds proxies representing 10 per cent. of the voting securities of the US insurer or anyone controlling a US insurer.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of an insurance company, including transactions, and in particular unsolicited transactions, that some or all of the shareholders of an insurance company might consider to be desirable.

3.5 *The National Association of Insurance Commissioners*

The National Association of Insurance Commissioners ("NAIC") is an organization of insurance regulators from the fifty states, the District of Columbia and the five US territories. The NAIC helps regulators protect the interests of insurance consumers through financial and market conduct regulation. Specifically, the NAIC develops uniform financial reporting by insurance companies, data collection, and other regulatory support related to identification of potentially troubled insurers, maintenance of statutory accounting, reporting, and risk based capital formula, financial examination system, regulatory information system, and reinsurance regulation.

The NAIC assists regulators in fulfilling their responsibility to protect the interests of insurance consumers by helping coordinate state market and regulatory functions such as antifraud efforts, consumer complaints, market analysis, producer licensing and regulatory interventions. It further advises and assists insurance regulators upon rate and form regulation, actuarial matters, statistical analysis for all lines of insurance and the credit, quality, and value of insurance investment portfolios.

3.6 *Risk Based Capital*

Every insurer is required to file with its domiciliary state and the NAIC a report on or before March 1 as to its Risk Based Capital ("RBC") as defined pursuant to a formula which takes into account asset risk, credit risk, underwriting risk, and other business risks. Failure to maintain sufficient RBC could

result in regulatory action, corrective action or placement of an insurer under regulatory control (see below “Administrative supervision, rehabilitation and insolvency”).

3.7 *Unfair competition and practices*

Many states prohibit any practice of an insurer which constitutes unfair methods of competition or unfair or deceptive acts or practices. These acts or practices include misrepresentations and false advertising of a policy, unfair discrimination, rebates, improper claim handling and other practices specifically prohibited. A determination that insurer has conducted such practices could result in monetary penalties, the issuance of cease and desist orders from engaging in any such practice, and/or a suspension of or revocation of the insurer’s license if the insurer knew or reasonably should have known it had violated such prohibitions.

3.8 *Administrative supervision, rehabilitation and insolvency.*

All states provide by law for the protection of the interests of insureds, claimants, creditors, and the public generally through administrative supervision, rehabilitation and/or liquidation of insurers. Generally, an insurer may be subject to administrative supervision, rehabilitation, or liquidation, subject to various limitations, if it appears to the regulator that the insurer’s condition renders continuance of its business hazardous to the public or to its insureds or if the insurer has exceeded its powers, failed to comply with applicable provisions of the insurance law, conducts its business fraudulently, its management is fraudulent or incompetent or its assets are insufficient or is, or likely to become, insolvent. In such circumstances, the regulator at its discretion may (i) place the insurer under administrative supervision which prohibits the insurer from taking certain actions, (ii) place the insurer in rehabilitation by taking possession of the assets of the insurer and administering the same subject to the jurisdiction of a court of competent jurisdiction, or (iii) liquidate the insurer pursuant to the provisions of applicable state law.

3.9 *Guarantee funds*

Most states provide a mechanism for the payment of claims under certain types of insurance policies to avoid delay in payment and financial loss to claimants or policy holders because of the insolvency of an insurer. Usually, this mechanism is a fund organized and directed by the covered insurers to which categories of insurers belong and which assesses member insurers a percentage of the insurers net direct written premiums for the purposes of the fund.

3.10 *Reinsurance*

The transaction of reinsurance is generally exempt from US regulation, except for the credit for reinsurance requirements discussed below. In addition to the regulatory requirements imposed by the jurisdictions in which they are licensed, reinsurers are subject to indirect regulatory requirements through the “credit for reinsurance” mechanism imposed by jurisdictions in which they are not licensed but where their cedants are licensed. A cedant which obtains reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction or state in which the insurer files statutory financial statements is permitted to reflect in its statutory financial statement a credit in an aggregate amount equal to the liability for unearned premiums and loss as well as adjustment expense reserves ceded to the reinsurer. If a reinsurer is not licensed, accredited, or approved in a given state, such reinsurer will be considered a non-licensed and non-accredited reinsurer and will have to post acceptable collateral as dictated by each state’s credit for reinsurance laws and regulations (such as a letter of credit, trust or other acceptable security arrangement) in order for a cedant to be able to take credit for the reinsurance on its balance sheet.

Accredited reinsurers in the US must maintain credit for reinsurance trust funds for the benefit of their US cedants. The trust account must be established in a qualified United States financial institution, consisting of cash deposited with the trustee, securities or an acceptable letter of credit on behalf of US policyholders. The credit for reinsurance trust account must be funded at 100 per cent. of gross liabilities reinsured from US insurers. The reinsurer could be subject to examination to determine the adequacy of the trust.

The funds contained within the trust account are not ordinarily available to meet ordinary expenses. There is a limited ability for insurers to withdraw funds from the credit for reinsurance lines trust fund other than at the normal quarterly revision periods, provided that the amount to be withdrawn:

- (i) is in respect of a specified loss event;
 - (ii) represents value for liabilities previously reserved in respect of policyholders claiming for this event;
 - (iii) cannot be obtained from other US dollar assets held outside the relevant US trust fund.
- 3.11 Transport, domiciled in the State of Ohio, is involved in the continuing litigation over coverage for third party environmental and toxic tort liabilities. The company also has a significant, but mature, workers compensation portfolio. The companies were placed into run-off and subsequently purchased by the Company in 2004. Since that time the Company has managed Transport through its US subsidiary Cavell America with its office in Cumberland, Rhode Island. Transport is actively managing its direct and assumed liabilities while aggressively pursuing its reinsurance coverage. The company's operations are subject to an aggregate stop loss provided by National Indemnity Company.
- 3.12 R&Q Re (US), domiciled in the Commonwealth of Pennsylvania, is the ultimate successor to ACE American Reinsurance Company and its predecessors (Cigna Re and INA Re) ("together as AARE"). The Company acquired AARE via stock purchase in July of 2006 and manages the company through its US subsidiary Cavell America with its office in Philadelphia, PA. Claims and reinsurance administration services are provided by Resolute Management Inc. in Philadelphia with Cavell oversight on site and from its main office in Cambridge, Massachusetts. Current operations involve several lines including auto, aviation and marine, workers compensation and casualty – with casualty being the most significant. INA Re and its successor were put into run-off back in the 1990s and had been managed by various entities within the ACE Group until last year.

PART VIII

TERMS AND CONDITIONS OF THE PLACING

1. Introduction

These terms and conditions apply to persons making an offer to subscribe for Placing Shares under the Placing.

Each person to whom these conditions apply, as described above, who confirms his agreement to Noble and Numis (on behalf of itself and the Company) to subscribe for Placing Shares (an “Investor”) hereby agrees with each of Noble and Numis and the Company to be bound by these terms and conditions as being the terms and conditions upon which Placing Shares will be subscribed under the Placing. An Investor shall, without limitation, become so bound if Noble and Numis confirms to the Investor its allocation. Following such confirmation, each Investor undertakes to promptly return a completed form of confirmation in the form supplied by Numis (the “Form of Confirmation”).

2. Agreement to purchase Placing Shares

Conditional on (i) Admission occurring and the Placing Agreement not having lapsed or been terminated in each case on or prior to 20 December 2007 (or such later date as Noble, Numis and the Company may agree (not being later than 11 January 2008)) and (ii) the confirmation mentioned under paragraph 1 above, an Investor agrees to subscribe for, as more particularly described below, at the Placing Price, the number of Placing Shares allocated to such Investor under the Placing in accordance with the arrangements described in Part III of this document. To the fullest extent permitted by law, each Investor acknowledges and agrees that they will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights such Investor may have.

3. Payment for Placing Shares

Each Investor undertakes to pay the Placing Price for the Placing Shares issued and/or sold (as applicable) to such Investor in such manner as shall be directed by Noble and Numis. Liability for stamp duty and stamp duty reserve tax is as described in paragraph 12 of Part IX of this document.

In the event of any failure by any Investor to pay as so directed by Noble or Numis, the relevant Investor shall be deemed hereby to have appointed Numis or any nominee of Numis to use its reasonable endeavours to sell (in one or more transactions) any or all of the Placing Shares in respect of which payment shall not have been made as directed by Numis and to indemnify Numis on demand in respect of any liability for stamp duty and/or stamp duty reserve tax arising in respect of any such sale or sales. A sale of all or any of such Placing Shares shall not release the relevant Investor from the obligation to make such payment for Placing Shares to the extent that Numis or its nominee has failed to sell such Placing Shares at a consideration which after deduction of the expenses of such sale and payment of stamp duty and/or stamp duty reserve tax as aforementioned exceeds the Placing Price per Placing Share.

4. Representations and warranties

By receiving this document and making the confirmation in paragraph 1 above, each Investor who confirms their agreement to subscribe for and/or to purchase Placing Shares confirms, represents, warrants and undertakes to Noble and Numis (for Placing and on behalf of the Company) on the terms and subject to the conditions set out in this document:

- (a) that the exercise by Noble or Numis of any rights or discretion under the Placing Agreement shall be within the absolute discretion of Noble or Numis and Noble or Numis need not have any reference to the Investor and shall have no liability to the Investor whatsoever in connection with any decision to exercise or not to exercise any such right. Each Investor agrees that they have no rights against Noble or Numis, the Company and any of their respective directors and employees under the Placing Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999;

- (b) that in agreeing to subscribe for Placing Shares under the Placing, each Investor is relying on this document and not on any other information or representation or warranty concerning the Company, any of its subsidiaries, any of its shares or the Placing (provided that nothing in these terms and conditions shall exclude the liability of any person for fraudulent misrepresentation);
- (c) that neither the Investor nor, as the case may be, their clients, expect Noble or Numis to have any duties or responsibilities to the Investor similar or comparable to the duties of “best execution” and “suitability” imposed by The Conduct of Business Source Book contained in The Financial Services Authority’s Handbook of Rules and Guidance, and that Noble or Numis is not acting for the Investor or their clients, and that Noble or Numis will not be responsible to the Investor or their clients for providing the protections afforded to its customers;
- (d) that, save in the event of fraud on the part of Noble or Numis (and to the extent permitted by the Rules of the Financial Services Authority), neither Noble or Numis, its ultimate holding company nor any direct or indirect subsidiary undertakings of that holding company, nor any of their respective directors and employees shall be liable to the Investor for any matter arising out of Noble’s or Numis’s role as placing agent or otherwise in connection with the Placing and that where any such liability nevertheless arises as a matter of law the Investor will immediately waive any claim against any of such persons which the Investor may have in respect thereof;
- (e) that in the case of a person who confirms to Noble or Numis on behalf of an Investor an agreement to subscribe for and/or purchase (as applicable) Placing Shares, that person represents and warrants that he has the authority to do so on behalf of the relevant Investor and:
 - (i) such person has carried out applicable procedures to verify the identity of such Investor for purposes of the Money Laundering Regulations 2003 (the “**Regulations**”);
 - (ii) such person has complied fully with his obligations pursuant to the Regulations; and
 - (iii) such person will provide Noble and Numis on demand with any information it might require for the purposes of verification under the Regulations;
- (f) that they are aware of, have complied with and will comply with their obligations in connection with money laundering under the Proceeds of Crime Act 2002;
- (g) that they are not and are not applying as nominee or agent for a person who is, or may be, mentioned in any of the sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);
- (h) that the Investor is not a national or resident of the United States, Canada, Australia or Japan or a corporation, partnership or other entity organised under the laws of the United States, Canada, Australia or Japan and that the Investor will not offer, sell, renounce, transfer or deliver directly or indirectly any of the Placing Shares into the United States, Canada, Australia or Japan or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation or to or for the benefit of any person resident in the United States, Canada, Australia or Japan or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation and the Investor acknowledges that the Placing Shares have not been and will not be registered under the United States Securities Act of 1933, as amended, and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada and that the same are not being offered for sale and may not be, directly or indirectly, offered, sold, transferred or delivered in the United States, Canada, Australia or Japan or any other jurisdiction where to do so would be in breach of any applicable law and/or regulation;
- (i) that the Investor is entitled to subscribe for the Placing Shares in their allocation under the laws of all relevant jurisdictions which apply to such Investor and that such Investor has fully observed such laws, obtained all governmental and other consents which may be required thereunder or otherwise and complied with all necessary formalities; and

- (j) that the Investor is a person of a kind described in paragraph 5 of Article 19 or paragraph 2 of Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

5. Supply and disclosure of information

If the Company, Noble or Numis or any of their agents request any information about an Investor's agreement to subscribe for Placing Shares, such Investor must promptly provide it to them.

6. Miscellaneous

The rights and remedies of Noble or Numis and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others.

On application, each Investor may be asked to disclose, in writing or orally, to Noble or Numis:

- (a) if he is an individual, his nationality; or
- (b) if it is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

All documents will be sent at the Investor's risk. They may be sent by post to such Investor at an address notified to Noble or Numis.

Each Investor agrees to be bound by the Articles (as amended from time to time) once the Placing Shares which such Investor has agreed to subscribe for and/or purchase have been issued or transferred to such Investor.

The contract to subscribe for and/or to purchase Placing Shares and the appointments and authorities mentioned herein will be governed by, and construed in accordance with, the laws of England. For the exclusive benefit of the parties mentioned under paragraph 1 above, each Investor irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

In the case of a joint agreement to subscribe for Placing Shares, references to an Investor in these terms and conditions are to each such Investor and the Investors' liability is joint and several.

Monies received from applicants pursuant to the Placing will be held in accordance with the terms and conditions of the Form of Confirmation issued by Numis until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 11 January 2008, application monies will be returned without interest at the risk of the applicant.

PART IX

ADDITIONAL INFORMATION

1. Responsibility statement

The Directors, whose names, functions and address appear on page 3 of this document, and the Company, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

- 2.1 The Company was incorporated and registered in England and Wales on 20 November 1998 under the Act with registered no 03671097 as a private company limited by shares with the name Law 1005 Limited. On 6 January 1999, the Company changed its name to Randall & Quilter Investment Holdings Limited. On 4 December 2007 the Company re-registered as a public limited company with the name Randall & Quilter Investment Holdings plc.
- 2.2 The Company's legal and commercial name is Randall & Quilter Investment Holdings plc.
- 2.3 The registered and head office of the Company is at 9-13 Fenchurch Buildings, London EC3M 5HR and its telephone number is 0207 481 1010.
- 2.4 The principal legislation under which the Company operates is the Companies Acts.
- 2.5 The business address of each of the Directors is 9-13 Fenchurch Buildings, London EC3M 5HR.

3. Share and loan capital

- 3.1 The Company was incorporated on 20 November 1998 with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1.00 each. At incorporation, one ordinary share was issued.
- 3.2 By a written resolution passed on 18 December 1998, the authorised share capital of the Company was altered by the sub-division of each of the 1,000 ordinary shares of £1.00 each into 100,000 ordinary shares of 1p each and, on the same date, 9,900 ordinary shares of 1p each were issued.
- 3.3 On 21 December 1998 a further 15,000 ordinary shares of 1p each were issued.
- 3.4 By a resolution passed on 16 June 2005, the authorised share capital of the Company was increased from £1,000 to £121,000 by the creation of 120,000 cumulative redeemable preference C shares of £1.00 each ("Preference C Shares") and, on the same date, all of these shares were issued.
- 3.5 By a resolution passed on 28 September 2005, the authorised share capital of the Company was increased from £121,000 to £371,000 by the creation of 250,000 cumulative redeemable preference D shares of £1.00 each ("Preference D Shares") and, on the same date, all of these shares were issued.
- 3.6 By a resolution passed on 28 June 2006, the authorised share capital of the Company was increased from £371,000 to £371,002 by the creation of one Preference A Share and one Preference B Share. On 3 July 2006 both of these shares were issued.
- 3.7 On 7 July 2006, the Company redeemed 134,000 of its Preference D Shares and on 29 June 2007, the Company redeemed the remaining 116,000 of its Preference D Shares.
- 3.8 By a resolution passed on 31 October 2007, the authorised share capital of the Company was increased from £371,002 to £870,752 by the creation of an additional 49,975,000 ordinary shares of 1p each and, on the same date, 49,975,000 ordinary shares of 1p each were issued at par pursuant to a bonus issue.

- 3.9 On 20 November 2007 the Company redeemed all of the Preference C Shares in the capital of the Company, being 120,000.
- 3.10 On 20 November 2007 a further 24,000,000 ordinary shares of 1p each were issued at a price of 20p each in consideration of the redemption of Preference C Shares.
- 3.11 On 20 November 2007 a further 2,665,000 ordinary shares of 1p each were issued to Alan Quilter at a price of 20p each in consideration of the purchase of the shares in RFML owned by him.
- 3.12 By an ordinary resolution passed on 20 November 2007 every two ordinary shares of 1p each in the capital of the Company were consolidated into one Ordinary Share.
- 3.13 On 30 November 2007 a further 1,570,000 Ordinary Shares were issued to certain employees of the Group.
- 3.14 By an ordinary resolution passed on 7 December 2007 it was resolved conditional on Admission:
- 3.14.1 to increase the authorised share capital of the Company from £870,752 to £1,260,002 by the creation of an additional 19,462,400 Ordinary Shares;
- 3.14.2 to authorise the Directors generally and unconditionally in accordance with section 80 of the Act to allot relevant securities (within the meaning of the section 80(2) of the Act) up to an aggregate nominal amount of £458,600 such authority to expire on 6 December 2012, but so as to enable the Company before that date to make an offer or agreement which would or might require relevant securities to be allotted after that date and to enable the Directors to allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by the resolution had not expired; and
- 3.14.3 to empower the Directors pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph 3.14.2 as if section 89(1) of the Act did not apply to any such allotment, such power to be limited to:
- 3.14.3.1 the allotment of the New Ordinary Shares;
- 3.14.3.2 the allotment of equity securities for cash in connection with an issue or offer by way of rights in favour of holders of equity securities and any other person entitled to participate in the issue or offering where the equity securities respectively attributable to the interests of those holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of the allotment, subject only to exclusions or other arrangements as the Directors deem fit to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange;
- 3.14.3.3 the allotment of up to 1,430,000 Ordinary Shares pursuant to the exercise of options to subscribe for Ordinary Shares existing at the date of the resolution; and
- 3.14.3.4 the allotment (other than pursuant to the power referred to in sub-paragraphs 3.14.3.1, 3.14.3.2 and 3.14.3.3) of equity securities up to an aggregate nominal amount of £110,000;

and shall expire on 6 December 2012; save that the Company may, before the expiry of this power, make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the directors may allot equity securities in pursuance of such an offer or agreement as if the power had not expired.

3.15 At the date of this document the authorised and issued fully paid share capital of the Company is:

| <i>Class of shares</i> | <i>Authorised</i> | | <i>Issued (fully paid)</i> | |
|------------------------|--------------------------|------------|--------------------------------|------------|
| | <i>Nominal value</i> | <i>No.</i> | <i>Nominal value</i> | <i>No.</i> |
| | <i>£</i> | | <i>£</i> | |
| Ordinary Shares | 1,260,000.00 | 63,000,000 | 798,050.00 | 39,902,500 |
| Preference A Share | 1.00 | 1 | 1 | 1 |
| Preference B Share | 1.00 | 1 | 1 | 1 |

3.16 The authorised and issued fully paid share capital of the Company immediately following Admission will be as follows:

| <i>Class of shares</i> | <i>Authorised</i> | | <i>Issued (fully paid)</i> | |
|------------------------|--------------------------|------------|--------------------------------|------------|
| | <i>Nominal value</i> | <i>No.</i> | <i>Nominal value</i> | <i>No.</i> |
| | <i>£</i> | | <i>£</i> | |
| Ordinary Shares | 1,260,000.00 | 63,000,000 | 1,118,050.00 | 55,902,500 |
| Preference A Share | 1.00 | 1 | 1.00 | 1 |
| Preference B Share | 1.00 | 1 | 1.00 | 1 |

3.17 The authorised but unissued share capital of the Company immediately following Admission will be £141,950.00 representing approximately 11.3 per cent. of the authorised share capital. Approximately 2.3 per cent. of the authorised share capital will be reserved for the issue of 1,430,000 Ordinary Shares on the exercise of the options to be issued under the Share Option Plans, as referred to in paragraph 5 below.

3.18 Other than the issue of Ordinary Shares pursuant to the Placing and on exercise of the share options as described in paragraph 5, the Company has no present intention to issue any of the authorised but unissued share capital of the Company.

3.19 The Company does not have in issue any securities not representing share capital.

3.20 The provisions of section 89(1) of the Act (to the extent not disapplied pursuant to section 95 of the Act) confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) which are, or are to be, paid up in cash and, on Admission, will apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the resolution referred to in paragraph 3.14.3 above. Subject to certain limited exceptions, unless the approval of Shareholders in a general meeting is obtained, the Company must normally offer Ordinary Shares to be issued for cash to holders of Ordinary Shares on a *pro rata* basis.

3.21 No shares of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

3.22 Save as disclosed in this paragraph 3, there has been no issue of share or loan capital of the Company or any other member of the Group (other than intra-group issues by wholly owned subsidiaries) in the three years immediately preceding the date of this document and (other than pursuant to the Placing or on the exercise of the options to be issued under the Share Option Scheme, as referred to in paragraph 3.23 below) no such issues are proposed.

3.23 On 26 November 2007, the Company granted options over an aggregate of 1,430,000 Ordinary Shares on the terms of the Long Term Incentive Plan (summarised in paragraph 5 of this Part VIII) at a subscription price of 40 pence per share. The options will be exercisable upon the Placing. The options are granted in respect of 1,185,000 Ordinary Shares under Part A and 245,000 Ordinary Shares under Incentive Stock Option Part C of the LTIP.

- 3.24 On 26 November 2007, the Company offered selected employees the opportunity to subscribe for a total of 1,535,000 Ordinary Shares at a price of 2 pence per Ordinary Share. The employees subscribed for the Ordinary Shares in full prior to the date of this document.
- 3.25 Save as disclosed in paragraph 9 below, no commissions, discounts, brokerages or other special terms have been granted by the Company or any other member of the Group in connection with the issue or sale of any share or loan capital of the Company or any other member of the Group in the three years immediately preceding the date of this document.
- 3.26 Save as disclosed in paragraph 3.23 above, on Admission no share or loan capital of the Company or any other member of the Group will be under option or has been agreed conditionally or unconditionally to be put under option.
- 3.27 Other than pursuant to the Placing, none of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to AIM.
- 3.28 The Placing Shares will be in registered form. No temporary documents of title will be issued and prior to the issue of definitive certificates, transfers will be certified against the register. It is expected that definitive share certificates for the Placing Shares not to be held through CREST will be posted to allottees by 31 December 2007. Placing Shares to be held through CREST will be credited to CREST accounts on Admission. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and otherwise than by a written instrument. The Company's new articles of association, which have been adopted (conditional on Admission), permit the holding of Ordinary Shares in CREST.

4. Memorandum and articles of association

The memorandum of association of the Company provides that the Company's principal object is to act as a general commercial company. The objects of the Company are set out in full in clause 3 of its memorandum of association.

The Articles contain, *inter alia*, the following provisions:

4.1 Voting rights

Subject to the rights or restrictions referred to in paragraph 4.9 below and subject to any special rights or restrictions as to voting attached to shares, on a show of hands (i) every holder of Ordinary Shares who being an individual is present in person or (being a corporation) is present by a duly authorised representative shall have one vote; and (ii) every proxy appointed by a holder shall have one vote; and on a poll every holder who is present in person or by proxy shall have one vote for each Ordinary Share held by him. Where a duly authorised representative or proxy is himself a member in his own right, he may only vote once on a show of hands and such vote shall represent a vote by him in his capacity as a corporate representative or proxy. A corporate member may, by resolution of its directors or other governing body, authorise a person or persons to act as its representative or representatives at any meetings and if a corporation authorises more than one person, any one of them shall, subject to section 323 of the 2006 Act, be entitled to exercise the same powers as the corporation could exercise if it were an individual member present at the meeting in person.

4.2 Restrictions on voting

A member of the Company is not entitled, either in person or by proxy, in respect of any share held by him, to be present at any general meeting of the Company unless all amounts payable by him in respect of that share have been paid.

A member of the Company shall not, if the directors determine, be entitled to attend general meetings and vote or to exercise rights of membership if he or another person appearing to be interested in the relevant shares has failed to comply with a notice given under section 793 of the 2006 Act within 14 days or an Affected Share Notice (as defined in paragraph 4.9 below) within 21 days. The restrictions

will continue for the period specified by the board provided that such period shall end not later than seven days after the earliest of (i) due compliance to the satisfaction of the board with the section 793 notice; or (ii) receipt by the Company of notice that the shareholding has been sold to a third party pursuant to an arm's length transfer.

4.3 *Rights attached to shares*

Preference A Share

Subject to section 334 of the 2006 Act, the Preference A Shareholder shall not be entitled to receive notice of, attend or vote at general meetings of the Company (and shall not be counted in any quorum at any general meeting of the Company).

The Preference A Shareholder shall be entitled, in priority to any shareholder other than the Preference B Shareholder to be paid out of any profits of the Company which are lawfully available for distribution a cumulative preferential cash dividend(s) in US dollars in an amount in aggregate equal to 50 per cent. of any sums received by the Company its Affiliates or any person acting on its or their behalf, in respect of the capital stock or surplus of R&Q Reinsurance Company ("R&Q Re"), provided that the maximum aggregate amount of the Preference A Dividend payments shall not exceed US\$5 million.

The Preference A Dividend shall be paid by the Company within 20 Business Days of the date(s) upon which such sums are received by the Company from R&Q Re. Any Preference A Dividend not paid in full when due shall be increased by the addition of interest (calculated daily on the unpaid amount and compounded as at 31 December in each year) at a rate equal to LIBOR plus 4.5 per cent. If any Preference A Dividend has not been paid in full when due no dividend may be declared or paid on any other class of shares (other than the Preference B Share) issued by the Company and the Company may not redeem, purchase or otherwise acquire in any way any other class of shares issued by the Company until (in either case) all arrears and deficiencies of the Preference A Dividend (and any interest accruing thereon) have been paid in full.

Save as provided, the Preference A Shareholder shall have no right to participate in the profits of the Company.

The Preference A Share shall not be capable of transfer or assignment.

Capital

On a return of capital or capital reduction or otherwise, the surplus assets of the Company remaining after the payment of its liabilities shall be applied in paying to the Preference A Shareholder, in priority to any other shareholder all unpaid arrears, accruals and deficiencies of the Preference A Dividend and any interest accrued thereon and an amount equal to the nominal value paid up on the Preference A Share held by the Preference A Shareholder (unless the amount being returned is to be distributed to shareholders as if it were a dividend, in which case it shall be paid as between the Preference A Shareholder and the Preference B Shareholder).

Save as provided the Preference A Shareholder shall have no right to participate in the assets of the Company.

Redemption

Upon satisfaction in full of the rights of the Preference A Shareholder (but not beforehand unless mutually agreed by the Company and the Preference A Shareholder), the Company shall be entitled to redeem the Preference A Share for nil consideration whereupon the Preference A Share shall be cancelled.

Preference B Share

Subject to section 334 of the 2006 Act, the Preference B Shareholder shall not be entitled to receive notice of, attend or vote at general meetings of the Company (and shall not be counted in any quorum at any general meeting of the Company).

The Preference B Shareholder shall be entitled, in priority to any other shareholder other than the Preference A Shareholder to be paid out of any profits of the Company which are lawfully available for distribution a cumulative preferential cash dividend(s) in US dollars in an amount in aggregate equal to 50 per cent. of any sums received by the Company, any of its Affiliates or any person acting on its or their behalf in respect of the capital stock or surplus of R&Q Reinsurance Company (UK) Limited (“R&Q Re UK”) (a company registered in England under number 01315641) provided that the maximum aggregate amount of the Preference B Dividend payments shall not exceed US\$10 million.

The Preference B Dividend shall be paid by the Company within 20 Business Days of the date(s) upon which such sums are received by the Company from R&Q Reinsurance Company (UK) Limited. Any Preference B Dividend not paid in full when due shall be increased by the addition of interest (calculated daily on the unpaid amount and compounded as at 31 December in each year) at a rate equal to LIBOR plus 4.5 per cent., from the due date for payment up to and including the day prior to payment. If any Preference B Dividend has not been paid in full when due, no dividend may be declared or paid on any other class of shares (other than the Preference A Share) issued by the Company and the Company may not redeem, purchase or otherwise acquire in any way any other class of shares issued by the Company until (in either case) all arrears and deficiencies of the Preference B Dividend (and any interest accruing thereon) have been paid in full.

Save as provided, the Preference B Shareholder shall have no right to participate in the profits of the Company.

The Preference B Share shall not be capable of transfer or assignment.

Capital

On a return of capital or capital reduction or otherwise, the surplus assets of the Company remaining after the payment of its liabilities shall be applied in paying to the Preference B Shareholder, in priority to any other shareholder other than the Preference A Shareholder all unpaid arrears, accruals and deficiencies of the Preference B Dividend and an amount equal to the nominal value paid up on the Preference B Share held by the Preference B Shareholder (unless the amount being returned is to be distributed to shareholders as if it were a dividend, in which case as between the Preference B Shareholder and the Preference A Shareholder).

Save as provided the Preference B Shareholder shall have no right to participate in the assets of the Company.

Redemption

Upon satisfaction in full of the rights of the Preference B Shareholder, the Company shall be entitled to redeem the Preference B Share for nil consideration whereupon the Preference B Share shall be cancelled.

Order of Priority of Dividend Payments as between Preference A Share and Preference B Share

If and to the extent that any profits of the Company which are lawfully available for distribution are attributable to sums received in respect of the capital stock or surplus of R&Q Re UK, are not required for payment of the Preference B Dividend (and/or any arrears of and interest on the Preference B Dividend, as the case may be), a distribution shall be payable to the Preference A Shareholder, to the extent (if any) required to discharge the Company’s obligations in respect of the Preference A Dividend, in priority to any other shareholder.

If and to the extent that any profits of the Company which are lawfully available for distribution are attributable to sums received in respect of the capital stock or surplus of R&Q Re; and are not required for payment of the Preference A Dividend (and/or any arrears of and interest on the Preference A Dividend, as the case may be) a distribution shall be payable to the Preference B Shareholder, to the extent (if any) required to discharge the Company's obligations in respect of the Preference B Dividend, in priority to any other shareholder.

In respect of any profits of the Company which are lawfully available for distribution and which are not (or cannot be specifically identified as being) attributable to sums received in respect of the either the capital stock or surplus of R&Q Re or R&Q Re UK, such profits shall be applied (in priority to any other shareholder), as between the Preference A Shareholder and the Preference B Shareholder, in the following order of priority:

- (a) payment in full of all arrears of and deficiencies in (and interest on) the Preference A Dividend; then
- (b) payment in full of all arrears of and deficiencies in (and interest on) the Preference B Dividend; then
- (c) payment of any Preference A Dividend which has become due but which is not yet in arrears; then
- (d) payment of any Preference B Dividend which has become due but which is not yet in arrears.

The Articles contain a list of matters which would, for the purposes of the Articles, be deemed a variation of the rights of the Preference A Shares and/or the Preference B Shares. These broadly relate to matters which would affect the rights of those shares to receive their preferential dividends or the Company's ability to pay those dividends.

4.4 ***Dividends***

The Company may, by ordinary resolution, declare a dividend to be paid to the members, according to their respective rights and interests in the profit. The directors may pay such interim dividends as appear to the board to be justified by the financial position of the Company. No dividends payable in respect of an Ordinary Share shall bear interest. The directors may, if authorised by an ordinary resolution, offer the holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid instead of cash in respect of all or part of a dividend ("a scrip dividend"). The directors may, pursuant to the provisions of the Articles relating to disclosure of interests, withhold dividends or other sums payable in respect of shares which are the subject of a notice under section 793 of the 2006 Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days of that notice and the member holding those shares may not elect, in the case of a scrip dividend, to receive shares instead of that dividend.

The Company or its directors may fix a date as the record date for a dividend provided that the date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared. A dividend unclaimed for a period of 12 years from the date when it became due for payment shall be forfeited and cease to remain owing by the Company.

4.5 ***Return of capital***

If the Company is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the members *in specie* the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may with the same sanction, vest the whole or any part of the assets in trustees on trusts for the benefit of the members as he with the same sanction thinks fit, but no member shall be compelled to accept any assets on which there is any liability.

4.6 *Variation of rights*

Any rights attaching to a class of shares in the Company may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the class (excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of the relevant class. The quorum for the separate general meeting shall be two persons holding, or represented by proxy, not less than one-third in nominal value of the issued shares of the relevant class (excluding any shares held as treasury shares).

4.7 *Transfer of shares*

Subject to the restriction set out in this paragraph, any member may transfer all or any of his shares in any manner which is permitted by the Statutes (as defined in the Articles) or in any other manner which the directors approve. A transfer of a certificated share shall be in writing in the usual common form or in any other form permitted by the Statutes or which the directors approve. The transferor is deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect of those shares. All transfers of uncertificated shares shall be made by means of the relevant system or in any other manner which is permitted by the Statutes and is from time to time approved.

The directors have a discretion to refuse to register a transfer of a certificated share which is not fully paid (provided that this does not prevent dealings in the shares from taking place on an open and proper basis) without giving a reason. The directors must provide the transferee with a notice of the refusal within two months from the date on which the transfer was lodged in the case of certificated shares or, in respect of uncertificated shares, the date on which an instruction was received by the Company through the relevant system. The directors may also decline to register a transfer of shares in certificated form unless (i) the instrument of transfer is deposited at the office of the Company or at another place which the directors determine, accompanied by the certificate for the shares to which it relates if it has been issued and such other evidence which the directors reasonably require to prove the title of the transferor; (ii) the instrument of transfer is in respect of only one class of share as in favour of no more than four transfers. The directors may, pursuant to the provisions of the Articles relating to disclosure of interests, decline to register a transfer in respect of shares which are the subject of a notice under section 793 of the 2006 Act and which represent at least 0.25 per cent. of the issued shares of their class, and in respect of which the required information has not been received by the Company within 14 days after service of the notice.

Save as aforesaid, the Articles contain no restrictions as to the free transferability of fully paid shares.

4.8 *Alteration of capital and purchase of own shares*

The Company may alter its share capital as follows:

- 4.8.1 by ordinary resolution, it may increase its share capital, consolidate or divide all or any of its shares into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person;
- 4.8.2 by special resolution and subject to the provisions of the Statutes, it may reduce its share capital, any capital redemption reserve or any share premium account or other undistributable reserves in any manner; and
- 4.8.3 subject to the provisions of the Statutes the Company may purchase all or any of its shares of any class, including redeemable shares and may hold such shares as treasury shares or cancel them.

4.9 *Controllers and aggregate holdings*

Affected Share Notices

The Directors may give notice (an "Affected Share Notice") to the registered holder of any share which would, if acquired by any person without this provision, result in that person becoming a

controller, within the meaning given to that expression in section 422 of FSMA (a “Controller”) or having increased control within the meaning given to that expression in section 180 of FSMA (“Increased Control”).

For these purposes, Controller means a person who is interested in shares or voting rights in respect of at least 10 per cent. of the Company and Increased Control means an increase in the percentage of shares or voting rights in respect of any shares in the Company in which a person is interested from:

- (a) below 10 per cent. to 10 per cent. or more but less than 20 per cent.;
- (b) below 20 per cent. to 20 per cent. or more but less than 33 per cent.;
- (c) below 33 per cent. to 33 per cent. or more but less than 50 per cent.; or
- (d) below 50 per cent. to 50 per cent. or more.

Required Disposal

On receipt of an Affected Share Notice the holder may make a disposal of his shareholding (to the extent required) so he is no longer a Controller or deemed to have Increased Control. If after 21 days from the date of service of an Affected Share Notice the Directors are not satisfied that such a disposal has been made, the Directors may arrange for the sale of the affected share(s) on behalf of the registered holder.

The holder of a share in respect of which an Affected Share Notice has been served may make representations to the Directors as to why such share should not be subject to an Affected Share Notice. The Directors may, after considering such representations and such other information as seems to them relevant or if the Directors are satisfied that the holder of the shares has all approvals necessary for it to hold the share without detriment to the Company, its subsidiaries or their respective businesses, withdraw the Affected Share Notice.

Rights of holder of Affected Shares

A registered holder upon whom an Affected Share Notice has been served shall not be entitled, in respect of such share(s), to attend or to speak at any general meeting of the Company or any meeting of the holders of any class of shares or to vote at any such meeting and the rights to attend (whether in person or by proxy), to speak and to demand and vote on a poll which, but for this provision, would have attached to such shares shall vest in the Chairman of such meeting.

The net proceeds of any sale of shares pursuant to an Affected Share Notice shall be received by the Company and shall be held on trust for and paid to the former registered holder upon surrender by him or on his behalf of any certificate in respect of the shares sold.

Notification of Control and Change to Aggregated Holdings

A member shall notify the Company where he proposes to enter into any transaction in respect of the Company’s shares (or becomes aware that he will become entitled through any direct or indirect holding of financial instruments or through a combination of such holdings to any interest in the Company’s shares) where he will, as a result of that transaction or entitlement become a Controller or which will result in his having Increased Control or reduced control (within the meaning given to that expression in section 181 of FSMA).

Where any such notification is given to the Company by a member, the giving of such notification shall not obviate any requirement, statutory or otherwise, for the member to notify any body or organisation of his shareholding in the Company.

4.10 Disclosure of Shareholders’ interests

A member shall notify the Company, pursuant to Chapter 5 of the FSA’s Disclosure and Transparency Rules (“DTR5”), of the percentage of voting rights which he holds in respect of the Company’s shares

or through any direct or indirect holding of financial instruments (or through a combination of such holdings) where the percentage of his voting rights reaches, exceeds or falls below the thresholds of 3 per cent. and each 1 per cent. thereafter up to 100 per cent. Such a notification shall include the information provided for in DTR5 and be made within two trading days.

4.11 **General meetings**

Annual general meetings

The board shall convene and the Company shall hold annual general meetings in accordance with the requirements of the Statutes.

General meetings

The board may convene a general meeting whenever it thinks fit. A general meeting shall also be convened by the board on the requisition of members pursuant to the provisions of the Statutes or, in default, may be convened by such requisitions, as provided by the Statutes. The board shall comply with the provisions of the Statutes regarding the giving and the circulation, on the requisition of members, of notices of resolutions and of statements with respect to matters relating to any resolution to be proposed or business to be dealt with at any general meeting of the Company.

Orderly conduct of meetings

The board may both prior to and during any general meeting make any arrangements and impose any restrictions which it considers appropriate to ensure the security and/or the orderly conduct of any such general meeting, including, without limitation, arranging for any person attending any such meeting to be searched, for items of personal property which may be taken into any such meeting to be restricted and for any person (whether or not a member of the Company) who refuses to comply with any such arrangements or restrictions to be refused entry to or excluded from any such meeting.

Notice of general meetings

An annual general meeting shall be called by not less than 21 clear days' notice. All other general meetings shall be called by not less than 14 clear days' notice.

A general meeting may be called by shorter notice if so agreed (i) in the case of an annual general meeting, by all the members entitled to attend and vote at the meeting; and (ii) in the case of a general meeting by a majority in number of the members having a right to attend and vote at the meeting who together hold not less than 95 per cent. in nominal value of the shares giving that right.

The notice shall specify the place, day and time of the meeting and the general nature of the business to be transacted.

Notice of every general meeting shall be given to all members other than any who, under the provisions of the Articles or the terms of issue of the shares which they hold, are not entitled to receive such notices from the company, and also to the auditors (or, if more than one, each of them) and to each director.

Every notice of meeting shall state with reasonable prominence that a member entitled to attend, speak and vote at the meeting may appoint one or more proxies to attend, speak and vote at that meeting instead of him and that a proxy need not be a member of the Company.

Quorum

No business, other than the appointment of a chairman, shall be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business.

Except as otherwise provided by the Articles two persons entitled to attend and to vote on the business to be transacted, each being a member present in person or by proxy or a duly authorised representative of a corporation which is a member shall be a quorum. If within 15 minutes from the

time appointed for the holding of a general meeting a quorum is not present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case, it shall stand adjourned to the same day in the next week (or, if that day is not a business day, to the next business day) and at the same time and place, as the original meeting, or to such other day, and at such other time and place, as the board may decide and in the latter case not less than seven clear days' notice of the adjourned meeting shall be given in any manner in which notice of a meeting may lawfully be given for the time being. If at an adjourned meeting a quorum is not present within 15 minutes from the time fixed for holding the meeting, any two members who are present in person or by proxy and entitled to vote on a poll shall be a quorum, failing which the meeting shall be dissolved.

Chairman

At each general meeting, the chairman of the board or, if he is absent or unwilling, the deputy chairman (if any) of the board or (if more than one deputy chairman is present and willing) the deputy chairman who has been longest in such office or, if no deputy chairman is present and willing, then one of the other directors who is appointed for the purpose by the board or (failing appointment by the board), by the members present, shall preside as chairman of the meeting, but if no director is present within 15 minutes after the time fixed for holding the meeting or, if none of the directors present is willing to preside, the members present and entitled to vote shall choose one of their number to preside as chairman of the meeting.

Directors entitled to attend and speak.

Whether or not he is a member, a director shall be entitled to attend and speak at any general meeting of the Company and at any separate general meeting of the holders of any class of shares of the Company.

Adjournment

With the consent of any meeting at which a quorum is present the chairman of the meeting may (and if so directed by the meeting shall) adjourn the meeting from time to time or sine die and from place to place.

In addition, the chairman of the meeting may at any time without the consent of the meeting adjourn the meeting (whether or not it has commenced or a quorum is present) to another time and/or place if, in his opinion, it would facilitate the conduct of the business of the meeting to do so, notwithstanding that by reason of such adjournment some members may be unable to be present at the adjourned meeting.

Method of voting and demand for poll

At a general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before or immediately after the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the chairman of the meeting; or
- (b) at least three members present in person or by proxy having the right to vote on the resolution; or
- (c) a member or members present in person or by proxy representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to vote on the resolution excluding any voting rights attached to any shares in the Company held as treasury shares; or
- (d) a member or members present in person or by proxy holding shares conferring the right to vote on the resolution on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right excluding any shares in the Company conferring a right to vote at the meeting which are held as treasury shares;

and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself.

Taking a poll

If a poll is demanded (and the demand is not withdrawn), it shall be taken at such time (either at the meeting at which the poll is demanded or within 30 days after the meeting), at such place and in such manner as the chairman of the meeting shall direct and he may appoint scrutineers (who need not be members).

Chairman's casting vote

In the case of an equality of votes, either on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place, or at which the poll is demanded, as the case may be, shall be entitled to a further or casting vote in addition to any vote or votes to which he may be entitled.

Representation of corporations

Any corporation which is a member of the Company may, by resolution of its directors or other governing body, authorise a person or persons to act as its representative or representatives at any meeting of the Company or of any class of members of the Company.

Proxies

A proxy need not be a member of the Company and a member may appoint more than one proxy in relation to a meeting to attend on the same occasion.

Form of proxy

An instrument appointing a proxy shall be:

- (a) by means of an instrument in writing in any usual form or in any other form which the board may approve, signed by the appointor, or his agent duly authorised in writing, or, if the appointor is a corporation, shall either be executed under its common seal or be signed by some agent or officer authorised for that purpose; or
- (b) contained in electronic form.

Deposit of proxy

The appointment of a proxy shall:

- (a) in the case of an instrument, be delivered personally or by post in hard copy form to the office or such other place within the United Kingdom as may be specified by or on behalf of the Company for that purpose in the notice convening the meeting or in any form of proxy sent by or on behalf of the Company in relation to the meeting, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting;
- (b) in the case of an appointment contained in electronic form, be received at an address specified (or is deemed by a provision in the 2006 Act to have been specified) by or on behalf of the Company, for the purpose of receiving documents or information in electronic form in, or by way of note to, the notice convening the meeting or in any form of proxy sent by or on behalf of the Company in relation to the meeting or in any invitation contained in electronic form to appoint a proxy issued by or on behalf of the Company in relation to the meeting, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting;
- (c) in the case of a poll which is taken more than 48 hours after it is demanded, be delivered or received as aforesaid and not less than 24 hours before the time appointed for the taking of the poll; or

- (d) in the case of a poll which is not taken at the meeting which it is demanded but is taken not more than 48 hours after it was demanded, be delivered in hard copy form at the meeting at which the poll was demanded to the chairman or to the secretary or to any director.

In relation to any shares which are held in uncertificated form, the board may from time to time permit appointments of a proxy to be made by electronic means in the form of an uncertificated proxy instruction.

An instrument of proxy relating to more than one meeting (including any adjournment thereof) having once been so received for the purposes of any meeting shall not require again to be received for the purposes of any subsequent meeting to which it relates.

Notice of revocation of proxy

Notice of the revocation of the appointment of a proxy may be given in any lawful manner which complies with the regulations (if any) made by the directors to govern the revocation of a proxy.

4.12 **Directors**

Number

Unless otherwise determined by the Company by ordinary resolution, the number of directors shall be not less than two but there is no maximum.

Appointment of directors by the Company in general meeting

The Company may by ordinary resolution appoint any person who is willing to act to be a director, either to fill a vacancy or as an additional director.

No person (other than a director retiring by rotation or otherwise) shall be appointed or re-appointed a director at any general meeting unless:

- (a) he is recommended by the board; or
- (b) not less than seven nor more than 42 clear days before the date appointed for the meeting there has been given to the Company, by a member (other than the person to be proposed) entitled to vote at the meeting, notice of his intention to propose a resolution for the appointment of that person, stating the particulars which would, if he were so appointed, be required to be included in the Company's register of directors and a notice executed by that person of his willingness to be appointed.

The board may appoint any person who is willing to act to be a director either to fill a vacancy or by way of addition to their number.

Remuneration

The directors (other than directors holding executive employment with the Company or a subsidiary of the Company office) shall be paid out of the funds of the Company by way of remuneration for their services as determined by the directors. The aggregate of the fees shall not exceed £500,000 per annum or such larger sum as may from time to time be determined by ordinary resolution. Any fee shall be distinct from any remuneration or other amounts payable to a director under other provisions of the Articles and shall accrue from day to day. The directors may be paid all travel, hotel and other expenses properly incurred in the performance of their duties as directors including expenses incurred in attending meetings of the board, committees of the board and general meetings or separate meetings of the holders of any class of securities of the Company.

Retirement of directors

At each annual general meeting any director who has been appointed by the board since the previous annual meeting and any director selected to retire by rotation shall retire from office.

Retirement of Directors by rotation

At each annual general meeting of the Company, one-third of the directors (excluding any director who has been appointed by the directors since the previous annual general meeting) or, if their number is not three or a multiple of three, the number nearest to but not more than one-third shall retire from office. In addition, each director shall retire from office at the third annual general meeting after he was appointed or reappointed, if he would not otherwise fall within the directors to retire by rotation.

The directors to retire shall be those of the other directors who have been longest in office since their appointment or last reappointment but, as between persons who became or were last reappointed directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

The directors to retire shall be determined (both as to number or identity) by the composition of the board at the commencement of business on the date of the notice convening the annual general meeting. A director shall not be required, or be relieved from the obligation, to retire by reason of a change in the board after that time but before the close of the meeting.

A retiring director shall be eligible for re-appointment and (unless he is removed from office or his office is vacated in accordance with the Articles) shall retain office until the close of the meeting at which he retires or (if earlier) when a resolution is passed at that meeting not to fill the vacancy or to appoint another person in his place or the resolution to re-appoint him is put to the meeting and lost.

If at any meeting at which the appointment of a director ought to take place the office vacated by a retiring director is not filled, the retiring director, if willing to act, shall be deemed to be re-appointed, unless at the meeting a resolution is passed not to fill the vacancy or to appoint another person in his place or unless the resolution to re-appoint him is put to the meeting and lost.

No person shall be disqualified from being appointed a director and no director shall be required to vacate from office, by reason only of his age.

Removal of directors

The Company may by ordinary resolution of which special notice has been given in accordance with the Statutes, remove any director before his period of office has expired notwithstanding anything in the Articles or in any agreement between him and the Company.

Vacation of office of director

Without prejudice to the provisions of the Articles for retirement or removal, the office of a director shall be vacated:

- (a) if he is prohibited by law from being a director; or
- (b) if he becomes bankrupt or he makes any arrangement or composition with his creditors generally; or
- (c) if he is, or may be, suffering from mental disorder and in relation to that disorder either he is admitted to hospital for treatment or an order is made by a court (whether in the United Kingdom or elsewhere) for his detention or for the appointment of some person to exercise powers with respect to his property or affairs; or
- (d) if for more than six months he is absent (whether or not an alternate director attends in his place), without special leave of absence from the board, from meetings of the board held during that period and the board resolves that his office be vacated; or
- (e) if he serves on the Company notice of his wish to resign, in which event he shall vacate office on the service of that notice on the Company or at such later time as is specified in the notice.

Executive directors

The directors may appoint a director to an executive office or employment under the Company. The appointment may be on the terms the directors determine.

The appointment of a director to an executive office or employment shall automatically cease if he ceases to be a director, but without prejudice to any claim for damages for breach of any contract of employment.

Power to appoint alternate directors

Each director may appoint another director or any other person who is willing to act as his alternate and may remove him from that office. The appointment as an alternate director of any person who is not himself a director shall be subject to the approval of a majority of the directors or a resolution of the board.

An alternate director shall be entitled to received notice of all meetings of the board and of all meetings of committees of which the director appointing him is a member, to attend and vote at any such meeting at which the director appointing him is not personally present and at the meeting to exercise and discharge all the functions, powers and duties of his appointor as a director and for the purposes of the proceedings at the meeting the provisions of the Articles shall apply as if he were a director.

Every person acting as an alternate director shall have one vote for each director for whom he acts as alternate, in addition to his own vote if he is also a director, but he shall count as only one for the purpose of determining whether a quorum is present.

Directors' interests

A director shall not vote nor be counted in a quorum at a meeting in relation to any resolution of the board concerning any contract, arrangement, transaction or proposal in which he has a material interest (including by virtue of the interests of persons connected with him).

The prohibition will not apply to the following:

- (a) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company (or any of its subsidiary undertakings) or in respect of a debt or obligation of the Company (or any of its subsidiary undertakings) for which he has assumed responsibility, in whole or in part, under a guarantee or an indemnity or by the giving of security;
- (b) any contract concerning an offer of shares, debentures or other securities of or by the Company (or any of its subsidiary undertakings) for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (c) any contract in which he is interested by virtue of his interest in shares, debentures or other securities of the Company or otherwise in or through the Company;
- (d) a proposal concerning another company in which he is not interested, directly or indirectly, in 1 per cent. or more either of its equity share capital or of its voting rights;
- (e) an arrangement for the benefit of the employees of the Company (or any of its subsidiary undertakings) which does not award the director a privilege or benefit not generally awarded to the employees to whom the arrangement relates; or
- (f) a proposal concerning the purchase or maintenance of insurance for the benefit of persons who include directors.

Subject to the Statutes and provided he has disclosed to the directors the nature and extent of his interest, a director may contract with the Company, the contract shall not be avoided on the grounds

of his interest or benefit and the Director is not liable to account to the Company for any benefit realised as a result of the contract.

A director shall not vote or be counted in the quorum in relation to a resolution of concerning his own appointment (including fixing or varying its terms), or the termination of his own appointment.

Where proposals are under consideration concerning the appointment (including fixing or varying its terms) or the termination of the appointment of two or more directors, a separate resolution may be put in relation to each director. In each case, each director (if not otherwise debarred from voting) is entitled to vote.

Benefits

The Directors may exercise all the powers of the Company to pay, provide or procure the grant of pensions or other retirement or superannuation benefits and death, disability or other benefits allowances or gratuities to any person who is or who has at any time been a director of the Company or in the employment or service of the Company or any of its subsidiary undertakings or predecessors in business (or the relatives or dependants of any such person).

Powers of the board

The business of the Company shall be managed by the board which may exercise all the powers of the Company, subject to the provisions of the Statutes, the memorandum of association of the Company, the Articles and any special resolution of the Company. No special resolution or alteration of the memorandum of association of the Company or the Articles shall invalidate any prior act of the board which would have been valid if the resolution had not been passed or the alteration had not been made.

Borrowing powers

The directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The directors shall restrict the borrowing of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to secure (in relation to subsidiaries only so far as by such exercise it can secure) that the aggregate principal amount outstanding at any time in respect of all borrowings by the Group (as defined in the Articles) (exclusive of intra-group borrowing) shall not, except with the previous sanction of the Company in general meeting, exceed £100,000,000 or any higher limit fixed by ordinary resolution of the Company which is applicable at the relevant time.

Indemnity of officers

Subject to the provisions of and so far as may be permitted by and consistent with the Statutes (as defined in the Articles) each current or former director, secretary or other officer (other than an auditor) of the Company or any Associated Company shall be indemnified out of the assets of the Company against:

- (a) any liability incurred by or attaching to him in connection with any negligence, default, breach of duty or breach of trust by him in relation to the Company other than:
 - (i) any liability to the Company or any Associated Company; and
 - (ii) any liability of the kind referred to in sections 234(3) of the 2006 Act;
- (b) any liability incurred by or attaching to him in connection with the activities of the Company in its capacity as a trustee of an occupational pension scheme (as defined in section 235(6) of the 2006 Act) other than a liability of the kind referred to in section 235(3) of the 2006 Act; and

- (c) any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers.

For the purpose of this Article, references to “liability” all include all costs and expenses incurred by the current or former director or other officer (other than an auditor) in relation thereto.

The directors may exercise all the powers of the Company to:

- (a) provide any current or former director, or other officer (other than an auditor) of the Company with funds to meet expenditure incurred or to be incurred by him in defending any criminal or civil proceedings in connection with any alleged negligence, default, breach of duty or breach of trust by him in relation to the Company or an Associated Company, or in connection with any application under the provisions mentioned in section 205(5) of the 2006 Act; and
- (b) do anything to enable any such person to avoid incurring such expenditure, but so that the terms set out in section 205(2) of the 2006 Act shall apply to any such provision of funds or other things done provided that for the purpose of this Article references to “director” in section 337A(4) of the Act shall be deemed to include references to a former director or other officer (other than an auditor) of the Company.

Subject to the Statutes, the board may purchase and maintain for or for the benefit of any person who holds or has at any time held a relevant office (as defined in the Articles), insurance against any liability or expense incurred by him in relation to the Company or any Associated Company or any third party in respect of any act or omission in the actual or purported discharge of his duties or otherwise in connection with holding his office.

Delegation to individual directors

The board may entrust to and confer upon any director any of its powers, authorities and discretions (with power to sub-delegate) on such terms and conditions as it thinks fit and may revoke or vary all or any of them, but no person dealing in good faith shall be affected by any revocation or variation.

The board may entrust to and confer upon any director any of its powers, authorities and discretions (with power to sub-delegate) on such terms and conditions as it thinks fit and may revoke or vary all or any of them, but no person dealing in good faith shall be affected by any revocation or variation.

Committees

The board may delegate any of its powers, authorities and discretions (with power to sub-delegate) including without prejudice to the generality of the foregoing all powers, authorities and discretions whose exercise involves or may involve the payment of remuneration to, or the conferring of any other benefit on, all or any of the directors to any committee consisting of such person or persons (whether directors or not) as it thinks fit, provided that the majority of the members of the committee are directors and that no meeting of the committee shall be quorate for the purpose of exercising any of its powers, authorities or discretions unless a majority of those present are directors.

Board meetings

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit.

Notice of board meetings

Notice of a board meeting shall be deemed to be properly given to a director if it is given to him personally or by word or mouth or sent in writing to him at his last known address or any other address given by him to the Company for this purpose or sent by electronic communication to him at an address given by him to the Company for this purpose.

Quorum

The quorum necessary for the transaction of the business of the board may be fixed by the board and, unless so fixed at any other number, shall be two. Subject to the provisions of the Articles, any director who ceases to be a director at a board meeting may continue to be present and to act as a director and be counted in the quorum until the termination of the board meeting if no other director objects and if otherwise a quorum of directors would not be present.

Voting

Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

Telephone and video conference meetings

A meeting of the board may consist of a conference between directors some or all of whom are in different places provided that each director who participates is able:

- (a) to hear each of the other participating directors addressing the meeting; and
- (b) if he wishes, to address all of the other participating directors simultaneously, whether by conference telephone or by video conference or by any other form of communications equipment (whether in use when the Articles are adopted or developed subsequently) or by a combination of any such methods.

A meeting held in this way is deemed to take place at the place where the largest group of participating directors is assembled or, if no such group is readily identifiable, at the place from where the chairman of the meeting participates.

Resolutions in writing

A resolution in writing signed or approved by all the directors entitled to notice of a meeting of the directors shall be as valid and effectual as if it had been passed at a meeting of the directors duly called and constituted. The resolution may be contained in one document or in several documents in like form, each signed or approved by one or more of the directors concerned.

4.13 **CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Ordinary Shares have been made eligible for settlement in CREST by means of a resolution of the Board passed on 7 December 2007, with the necessary notice having been given to all members of the Company at that time, as contemplated by the Uncertificated Securities Regulations 2001. The Company has applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred.

5. Share Option Plans

The following share incentive arrangements have been established by the Company:

5.1 ***The Randall & Quilter Investment Holdings Limited Long Term Incentive Plan***

The Long Term Incentive Plan ("LTIP") was approved and adopted by the shareholders on 31 October 2007. The LTIP provides for the grant of discretionary option awards to employees. Whilst the LTIP rules are flexible with regard to the option price and the vesting conditions, it is expected that options will normally be granted with an option price equal to the market price on the date of grant and for the options to vest on the third anniversary of the grant of the option. The Remuneration Committee will determine the option price and the vesting conditions on or prior to the date of the award.

The LTIP has three Parts as follows:

- Part A approved by HM Revenue & Customs (“HMRC”) under the Company Share Option Plan code for approved option awards up to a value of £30,000 for a UK based employee;
- Part B unapproved options where the £30,000 limit under Part A is exceeded or the award is on terms not qualifying under Part A; and
- Part C under the United States Incentive Stock Option code for option awards for US based employees.

Operation

The Remuneration Committee of the Board will make awards under the LTIP and also supervise the operation of the LTIP.

Eligibility

Any employee including an executive director (but excluding any non-executive director) of the Group will be eligible to participate in the LTIP at the discretion of the Remuneration Committee.

Structure of awards

Awards are option grants to acquire Ordinary Shares at a price determined at the date of grant. The options under Part A and C are required to be granted at the market value of the Shares at the date of grant. Awards made under Part B may be made with an option price at less than market value but no lower than nominal cost.

Grant of awards

Awards may be granted within:

- 42 days of the date of the Placing; or
- 42 days of the date following the announcement of the Company’s results for any financial period; or
- at any other time when the Remuneration Committee considers there are exceptional circumstances which justify the granting of awards.

It is expected that employees or directors awarded options under The Randall & Quilter Investment Holdings Limited Executive Performance Share Plan will not be granted awards under the LTIP in the same financial year.

Awards may not be granted after 31 October 2017.

No payment is required for the grant of the option award.

Awards are not transferable other than on death.

Individual limits

The total number of Ordinary Shares over which awards may be granted to an employee shall be determined by the Remuneration Committee. It is expected that the market value of the Ordinary Shares for awards in any financial year will not exceed more than 100 per cent of the employee’s base salary for the year.

Performance or vesting conditions

The vesting schedule or performance conditions will be determined by the Remuneration Committee. It is expected that the award will be made with vesting occurring three years from the date of the grant of the option.

Leaving employment

An award will normally lapse upon a participant ceasing to hold employment or being a director within the Group.

Where the option has vested at the time of cessation and the participant ceases to be an employee or director due to injury, disability, redundancy, retirement (on or after reaching aged 55), or where the part of the business for which the participant works ceases to be part of the Group, the option may be exercised within six months of cessation. In the event of death the personal representatives will have 12 months in which to exercise the option.

Corporate transactions

In the event of a takeover or winding up of the Company (not being an internal reorganisation) all awards will vest.

Variation of share capital

In the event of a variation in the share capital of the Company, or in the event of a de-merger, the Remuneration Committee may make such adjustments as it considers appropriate to the number of the Ordinary Shares subject to an award or the option price payable.

Overall LTIP limits

In any 10 calendar year period, the Company may not issue (or grant rights to issue) more than 10 percent of the issued share capital of the Company under the LTIP and any other employee share plan adopted by the Company.

Ordinary Shares issued prior to the date of Admission to the trustee of an employee benefit trust or to employees will not count towards this limit.

Alterations

The Remuneration Committee may, at any time, amend the LTIP in any respect. Amendments to Part A will require HMRC approval in advance of any material amendment.

5.2 *The Randall & Quilter Investment Holdings Limited Executive Performance Share Plan*

The Executive Performance Share Plan (“EPSP”) provides for the grant of options over Ordinary Shares in the Company. The EPSP is for the grant of discretionary option awards to be granted to the executive directors and other key employees. The EPSP is not approved by HMRC.

Operation

The Remuneration Committee of the Board will make awards under the EPSP and also supervise the operation of the EPSP.

Eligibility

Any executive director (but excluding any non-executive director) or key employee (key employee as determined by the Remuneration Committee) of the Group will be eligible to participate in the EPSP at the discretion of the Remuneration Committee.

Structure of awards

Awards are conditional rights to acquire Ordinary Shares and may be structured as nil or a nominal cost options with performance conditions over 3 to 5 years.

Grant of awards

Awards may be granted within:

- (a) 42 days of the date of the Placing; or

- (b) 42 days of the date following the announcement of the Company's results for any financial period; or
- (c) at any other time when the Remuneration Committee considers there are exceptional circumstances which justify the granting of awards.

Employees or directors granted awards under the EPSP will not be eligible to be granted awards under the LTIP in the same financial year.

Awards may not be granted more than ten years from the date of the adoption of the EPSP.

No payment is required for the grant of the option award.

Awards are not transferable other than on death (see below).

Individual limits

The total number of Ordinary Shares over which awards may be granted to an employee shall be determined by the Remuneration Committee. The market value of the Ordinary Shares for awards in any financial year will not normally exceed more than 50 per cent. of the employee's base salary for the year. The Remuneration Committee in its discretion, may determine in exceptional circumstance that an award in excess of this amount is appropriate. In any event the award cannot exceed 100 per cent. of the employee's base salary for the year.

Performance or vesting conditions

The performance conditions will be determined by the Remuneration Committee prior to the grant of the award. It is expected that the award will be made with the following:

The award will be subject to a condition measuring the Company's Total Shareholder Return ("TSR") performance against the RPI for the performance period, such that:

- (a) One-third of the award Ordinary Shares will vest where the Company's TSR exceeds RPI plus 4 per cent. pa over a period of three years from the date of grant of the option;
- (b) One-third of the award Ordinary Shares will vest where the Company's TSR exceeds RPI plus 4 per cent. pa over a period of four years from the date of grant of the option;
- (c) One-third of the award Ordinary Shares will vest where the Company's TSR exceeds RPI plus 4 per cent. pa over a period of five years from the date of grant of the option.

Options which do not vest in (a) or (b) above, may be retested at the end of the periods in (b) and (c) and may vest where the conditions at the fourth and fifth anniversary are satisfied.

Options not vested by the fifth anniversary of the date of grant will lapse. All awards will lapse on the tenth anniversary of the grant of the award.

Leaving employment

An award will normally lapse upon a participant ceasing to hold employment or being a director within the Group.

Where the option has vested at the time of cessation and the participant ceases to be an employee or director due to injury, disability, redundancy, retirement (on or after reaching aged 55), or where the part of the business for which the participant works ceases to be part of the Group, the option may be exercised within six months of cessation. In the event of death the personal representatives will have 12 months in which to exercise the option.

Corporate transactions

In the event of a takeover or winding up of the Company (not being an internal reorganisation), the performance period will be adjusted to end at the date of the takeover. Optionholders will be notified as to whether the awards have vested.

Variation of share capital

In the event of a variation in the share capital of the Company, or in the event of a de-merger, the Remuneration Committee may make such adjustments as it considers appropriate to the number of the Ordinary Shares subject to an award or the option price payable.

Overall EPSP limits

In any 10 calendar year period, the Company may not issue (or grant rights to issue) more than 10 percent of the issued share capital of the Company under the EPSP and any other employee share plan adopted by the Company.

Ordinary Shares issued prior to the date of Admission to the trustee of an employee benefit trust or to employees will not count towards this limit.

Alterations

The Remuneration Committee may, at any time, amend the EPSP in any respect.

5.3 ***The Randall & Quilter Investment Holdings Limited Deferred Bonus Share Plan***

The Deferred Bonus Share Plan (“DBSP”) provides for employees to defer a portion of their discretionary bonus award into an award of Ordinary Shares with an aggregate market value equal to the deferred bonus. The shares awarded will be restricted from sale for a period. Where the participant remains in employment for the period of the restriction the initial award will be enhanced with further shares at no cost to the employee. It is intended that the further shares are awarded on the condition that the initial award shares are not sold during the period of three years and the participant is employed by the Group for a period of three years, or such other time limit as determined by the Remuneration Committee. The Remuneration Committee may limit the number of shares available for the DSBP in any financial year.

Operation

The Remuneration Committee of the Board will make awards under the DBSP and also supervise the operation of the DBSP.

Eligibility

Any employee or executive director (but excluding any non-executive director) of the Group who is eligible to receive a discretionary bonus under any arrangement which rewards performance in the prior financial year will be eligible to participate in the DBSP at the discretion of the Remuneration Committee.

Structure of awards

Where the employee is invited to participate and accepts the invitation, all or part of the discretionary bonus will be awarded as a number of restricted Ordinary Shares equal to the value of the deferred discretionary bonus (“Purchased Shares”), together with a conditional right to acquire further Ordinary Shares structured as a nil or a nominal cost option (“Bonus Shares Option”).

Grant of awards

Awards may be granted within:

- (a) 42 days of the date of the Placing; or

- (b) 42 days of the date following the announcement of the Company's results for any financial period; or
- (c) at any other time when the Remuneration Committee considers there are exceptional circumstances which justify the granting of awards.

The Awards may not be granted more than ten years from the date of the adoption of the DBSP.

No payment is required for the grant of the option award.

Awards are not transferable other than on death (see below).

Individual limits

The total number of Ordinary Shares over which awards may be granted to an employee shall be determined by the Remuneration Committee.

Restrictions and vesting conditions

The restrictions relating to the Purchased Shares and the vesting conditions relating to the Bonus Share Option will be determined by the Remuneration Committee prior to the invitation to the employee. It is expected that the Bonus Shares Option award will be made with the following conditions:

- (a) the Purchased Shares are not sold or transferred for a period of three years; and
- (b) the employee or director remains in employment until the third anniversary of the grant of the Bonus Shares Option award.

Where the employee chooses to sell the Purchased Shares within the three year vesting period (regardless of whether they have ceased employment with the Group, or not) the Bonus Share Option award will lapse.

Leaving employment

An award will normally lapse upon a participant ceasing to hold employment or to be a director within the Group.

Where the Bonus Share Option has vested at the time of cessation and the participant ceases to be an employee or director due to injury, disability, redundancy, retirement (on or after reaching aged 55); or where the part of the business for which the participant works ceases to be part of the Group, the Bonus Share Option may be exercised within six months of cessation. In the event of death the personal representatives will have 12 months in which to exercise the option.

Corporate transactions

In the event of a takeover or winding up of the Company (not being an internal reorganisation) all awards will vest.

Variation of share capital

In the event of a variation in the share capital of the Company, or in the event of a de-merger, the Remuneration Committee may make such adjustments as it considers appropriate to the number of the Shares subject to an award or the option price payable.

Overall DBSP limits

In any 10 calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent. of the issued share capital of the Company under the DBSP and any other employee share plan adopted by the Company.

Ordinary Shares issued prior to the date of Admission to the trustee of an employee benefit trust or to employees will not count towards this limit.

Alterations

The Remuneration Committee may, at any time, amend the DBSP in any respect.

6. Directors' and other interests

- 6.1 As at the date of this document and on Admission, the interests of the Directors and their immediate families (all of which are beneficial) in the share capital of the Company and, so far as is known to the Directors or could with reasonable diligence be ascertained by them, persons connected with them (within the meaning of sections 252 to 255 of the 2006 Act) which, if the connected person were a Director would otherwise be disclosed pursuant to this paragraph are or are expected to be as follows:

| <i>Director</i> | <i>Before Admission</i> | | <i>Following Admission</i> | |
|-----------------|----------------------------------|----------------------------------------------------|----------------------------------|------------------------------------------------------|
| | <i>Number of Ordinary Shares</i> | <i>Percentage of issued Ordinary Share capital</i> | <i>Number of Ordinary Shares</i> | <i>Percentage of Enlarged Ordinary Share capital</i> |
| Kenneth Randall | 27,004,000 | 67.7 | 21,804,000 | 39.0 |
| Alan Quilter | 7,665,500 | 19.2 | 4,865,500 | 8.7 |
| Paul McNamara | – | – | 28,000 | 0.1 |
| Michael Smith | – | – | – | – |
| Jo Welman | – | – | – | – |

- 6.2 At the date of this document and on Admission, save for the interests of Directors disclosed in paragraph 6.1 above, the Company is aware of the following persons who are or will hold, directly or indirectly, voting rights representing 3 per cent. or more of the issued share capital of the Company to which voting rights are attached (assuming that all Ordinary Shares are taken up pursuant to the Placing):

| | <i>Before Admission</i> | | <i>Following Admission</i> | |
|----------------------------------------|----------------------------------|----------------------------------------------------|----------------------------------|------------------------------------------------------|
| | <i>Number of Ordinary Shares</i> | <i>Percentage of issued Ordinary Share capital</i> | <i>Number of Ordinary Shares</i> | <i>Percentage of Enlarged Ordinary Share capital</i> |
| CQS (UK) LLP | – | – | 5,584,500 | 9.99 |
| Och-Ziff Management Europe Limited | – | – | 5,584,500 | 9.99 |
| Numis Corporation plc | – | – | 4,000,000 | 7.2 |
| Lehman Brothers International (Europe) | – | – | 3,468,600 | 6.2 |
| Mark Randall | 3,663,000 | 9.2 | 2,863,000 | 5.1 |
| Rensburg Fund Management Ltd | – | – | 2,560,000 | 4.6 |

- 6.3 On Admission, Ken Randall, Mark Randall and Alan Quilter will be deemed to be acting in concert for the purposes of the Code. Between them, they will hold approximately 52.8 per cent. of the Ordinary Share capital of the Company.
- 6.4 Save as disclosed in paragraphs 6.1 and 6.2 above, the Company is not aware of any person who will, immediately following Admission, hold (for the purposes of rule 5 of the DTRs (“DTR 5”)) directly or indirectly, voting rights representing 3 per cent. or more of the issued share capital of the Company to which voting rights are attached or could directly or indirectly, jointly or severally, exercise control over the Company.

- 6.5 The persons including the Directors, referred to in paragraphs 6.1 and 6.2 above, do not have voting rights in respect of the share capital of the Company (issued or to be issued) which differ from any other shareholder of the Company.
- 6.6 The Company and the Directors are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.
- 6.7 No Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- 6.8 The Directors currently hold, and have during the five years preceding the date of this document held, the following directorships or partnerships:

| <i>Name</i> | <i>Current directorships/partnerships</i> | <i>Previous directorships/partnerships</i> |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| Alan Quilter | Arran Insurance Company Limited Cavell America Inc. Cavell BCS Inc. Cavell Management Services Limited Cavell USA Inc Chevanstell Limited Chevanstell Management Limited EC3 Solutions Limited Ken Randall Associates Limited La Metropole S.A. LDMS Limited Ludgate Insurance Company Limited Markitas Limited Markitas Management Company Limited Markitas Re Limited Oast Holdings Limited Peter Blem Adjusters Limited Peter Blem Associates Limited R&Q Broking Services Limited R&Q Reinsurance Company (Belgium) R&Q Reinsurance Company (UK) Limited Randall & Quilter Consultants Limited Randall & Quilter Investment Holdings Limited Randall & Quilter Overseas Holdings Limited Reinsurance Finance Management Limited Renaissance Capital Partners Limited Special Limited Partnership of Dukes Place Holdings, L.P. Transport Insurance Company | Cavell Managing Agency Limited Moonstock Computers Limited RBQ Properties Limited RCP (Bermuda) Limited |

| <i>Name</i> | <i>Current directorships/partnerships</i> | <i>Previous directorships/partnerships</i> |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ken Randall | Arran Insurance Company Limited Cavell America Inc. Cavell BCS Inc. Cavell Managing Agency Limited Cavell USA Inc. Chevanstell Limited EC3 Solutions Limited Ken Randall Associates Limited Health Development Partnership La Metropole S.A. LDMS Limited Ludgate Insurance Company Limited Malling Investments Limited Oast Holdings Limited R&Q Reinsurance Company R&Q Reinsurance Company (Belgium) R&Q Reinsurance Company (UK) Limited Randall & Quilter Consultants Limited Randall & Quilter Investment Holdings Limited Randall & Quilter Overseas Holdings Limited Randall & Quilter 43 Société par Actions Simplifiée Randall & Quilter 58 Société par Actions Simplifiée Reinsurance Finance Management Limited Renaissance Capital Partners Limited Special Limited Partnership of Dukes Place Holdings, L.P. Transport Insurance Company | Cavell Holdings Limited Cavell Insurance Company Limited Chevanstell Management Limited Cirrus Reinsurance Company Limited Dukes Place Holdings Limited Dukes Place Investment Holdings (Bermuda) Limited Moonstock Computers Limited Newmarket Underwriting Limited RBQ Properties Limited Seaton Insurance Company Stonewall Insurance Company Unione Italiana (UK) RCP (Bermuda) Limited Reinsurance Company Limited |
| Paul McNamara | Newtree Syndicate SCI La Mandragore | Ernst & Young LLP Professional Asset Indemnity Limited (Bermuda) |
| Michael Smith | Brit Insurance Holdings PLC Cavell Managing Agency Limited CFC Underwriting Limited Horseshoe Wharf Management Limited Michael Smith Associates Limited Wigcave Investments Limited The Foyle Foundation The National Hospital for Neurology and Neurosurgery Development Foundation The Oval Cricket Relief Trust | ACE Underwriting Agencies Limited Cavell Management Services Limited Heath Lambert Financial Resolutions Limited Spitalfields Festival Limited |

| <i>Name</i> | <i>Current directorships/partnerships</i> | <i>Previous directorships/partnerships</i> |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Jo Welman | EPIC Investment Partners Limited Epic Asset Management Limited Epic Investment Partners (2006) Limited Strand Partners Limited Strand Partners Securities Limited | Aesop Capital Limited Allen Bridge Epic Investment Advisers Limited Epic Private Equity Limited Bayswater Growth PLC Benfield & RB Limited Brit Insurance Holdings Plc Brit Investment Company Limited Brit Investment Holdings Limited Brit UW Limited Cathedral Capital Holdings Limited Cathedral Capital Management Limited Close FTSE 100 Trust Plc EEA Fund Management Limited EPIC Specialist Investments Limited London Town Plc Finsbury Income and Growth Investment Trust Plc Finsbury Income and Growth Trading Limited Finsbury Underwriting Limited Fuit Five Limited Fuit Four Limited Fuit One Limited Fuit Three Limited Fuit Two Limited HCG Alpha Limited HCG Bravo Limited HCG Charlie Limited HCG Delta Limited HCG Echo Limited HCG Foxtrot Limited HCG Golf Limited HCG Holdings Limited HCG Hotel Limited Masthead A Limited Masthead B Limited Masthead C Limited Masthead D Limited Masthead E Limited Masthead Insurance Underwriting Limited Rosebutton Limited Wren Limited |

6.9 None of the Directors has any unspent convictions in relation to indictable offences.

6.10 None of the Directors have been the subject of any public criticism by any statutory or regulatory authority (including a recognised professional body).

- 6.11 Save as provided in paragraphs 6.17 and 6.18 below, none of the Directors has been a director of a company at the time of, or within the 12 months preceding the date of, that company being the subject of a receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors.
- 6.12 None of the Directors has been a partner of a partnership at the time of, or within 12 months preceding the date of, that partnership being placed into compulsory liquidation or administration or being entered into a partnership voluntary arrangement nor in that time have the assets of any such partnership been the subject of a receivership.
- 6.13 No asset of any Director has at any time been the subject of a receivership.
- 6.14 None of the Directors is or has been bankrupt nor been the subject of any form of individual voluntary arrangement.
- 6.15 None of the Directors is or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.
- 6.16 Save as disclosed, there are no outstanding loans or guarantees provided by any member of the Group for the benefit of any of the Directors nor are there any loans or any guarantees provided by any of the Directors for any member of the Group.
- 6.17 Ken Randall and Alan Quilter are directors of Ludgate, which entered into a creditors' voluntary scheme of arrangement (pursuant to section 425 of the Act) on 5 April 2004.
- 6.18 Ken Randall and Alan Quilter are directors of La Metropole, which entered into a creditors' voluntary scheme of arrangement (pursuant to section 425 of the Act) on 29 July 2003.
- 6.19 Paul McNamara is subject to ongoing enquiry and disciplinary proceedings brought by the Investigation Committee of the Joint Disciplinary Scheme of the UK accounting bodies in respect of his role as Ernst & Young's Client Service Partner to Equitable Life Assurance Society prior to 2001. The proceedings principally relate to complex technical reserving and disclosure issues for life companies. The proceedings also involve the adequacy of the scope of audit procedures.

7. Directors' service agreements

7.1 *Executive Directors*

The following agreements have been entered into between the executive Directors and Randall & Quilter Consultants Limited (a wholly owned subsidiary of the Company), in each case commencing from Admission:

- 7.1.1 a service agreement dated 7 December 2007 between (1) Randall & Quilter Consultants Limited and (2) Kenneth Edward Randall under which Mr Randall is to serve as Chairman and Chief Executive, for an initial period of 12 months terminable by either party on 12 months' written notice to expire at any time on or after the second anniversary of Admission, at a salary (subject to annual review) of £300,000 per annum and other benefits commensurate with his position, permanent health insurance, life assurance and private medical insurance. Mr Randall is entitled to participate in a bonus scheme under which he may be awarded a bonus of up to 100 per cent. of his annual salary. Any bonus payable to Mr Randall is at the discretion of the remuneration committee. Mr Randall is subject to non-competition, non-poaching and non-solicitation restrictive covenants for a period of 12 months following termination of his employment; and
- 7.1.2 a service agreement dated 7 December 2007 between (1) Randall & Quilter Consultants Limited and (2) Alan Kevin Quilter under which Mr Quilter is to serve as Group Finance Director at a salary (subject to annual review) of £200,000 per annum and other benefits including pension contributions equivalent to 15 per cent. of salary, permanent health

insurance, life assurance and private medical insurance. The agreement is terminable by either party giving not less than 12 months' notice at any time. Mr Quilter is entitled to participate in a bonus scheme under which he may be awarded a bonus of up to 100 per cent. of his annual salary. Any bonus payable to Mr Quilter is at the discretion of the remuneration committee. Mr Quilter is subject to non-competition, non-poaching and non-solicitation restrictive covenants for a period of 12 months following termination of his employment.

7.2 *Non-executive Directors*

Paul McNamara, Michael Smith and Jo Welman have each entered into a letter of appointment dated 7 December 2007 as a non-executive Director of the Company, in each case conditional on and commencing from Admission, on the following terms:

7.2.1 the appointment as non-executive Director can be terminated in accordance with the Articles or by either party upon six months' notice, such notice to expire no earlier than the first anniversary of Admission. The basic annual fee is £50,000; and

7.2.2 Michael Smith is an independent non-executive director of Cavell Managing Agency Limited at an annual fee of £35,000 for which there is no letter of appointment and which is terminable at any time.

7.3 The aggregate remuneration paid (including pension fund contributions and benefits in kind) to the Directors by members of the Group in respect of the year ended 31 December 2006 was approximately £588,000 and for the year ending 31 December 2007 will be approximately £595,000. It is estimated that the aggregate remuneration (including pension fund contributions and benefits in kind but excluding bonuses payable to the Directors by members of the Group in respect of the next financial year (under the arrangements in force at the date of this document) is expected to be £740,102.

7.4 Each of Paul McNamara, Michael Smith and Jo Welman have been engaged to provide consultancy services to the Company in preparation for Admission prior to their appointments as Directors. Fees paid and payable by the Company under these arrangements are estimated to total £35,000.

8. **The Company and its subsidiaries**

8.1 The Company is the holding company of the Group and has the following principal subsidiaries:

| <i>Name</i> | <i>Country of registration or incorporation</i> | <i>Principal activity</i> | <i>Percentage of issued share capital held by the Company and (if different) proportion of voting power held</i> |
|------------------------------------|-------------------------------------------------|---------------------------|------------------------------------------------------------------------------------------------------------------|
| Arran Insurance Company Limited | England | Ins co. | 100% |
| Cavell America Inc. | USA | Holding co. | 100% |
| Cavell BCS Inc. | USA | Service | 100% |
| Cavell Management Services Limited | England | Service | 100% |
| Cavell Managing Agency Limited | England | Lloyd's Managing Agency | 100% |
| Cavell USA Inc. | USA | Service | 100% |
| Chevanstell Limited | England | Ins co. | 100% |
| EC3 Solutions Limited | England | Software development | 60% |
| Ken Randall Associates Limited | England | Intermediate holding co. | 100% |
| La Metropole S.A. | Belgium | Ins Co. | 100% |
| Peter Blem Adjusters Limited | England | Service | 100% |

| <i>Name</i> | <i>Country of registration or incorporation</i> | <i>Principal activity</i> | <i>Percentage of issued share capital held by the Company and (if different) proportion of voting power held</i> |
|-----------------------------------------------------|-------------------------------------------------|---------------------------|------------------------------------------------------------------------------------------------------------------|
| R&Q Broking Services Limited | England | Service | 100% |
| R&Q Reinsurance Company (Belgium) | Belgium | Ins co. | 100% |
| R&Q Reinsurance Company (UK) Limited | England | Ins co. | 100% |
| R&Q Reinsurance Company | USA | Ins co. | 100% |
| Randall & Quilter 43 Societe Par Actions Simplifiee | France | Investment holding co. | 100% |
| Randall & Quilter 58 Societe Par Actions Simplifiee | France | Investment holding co. | 100% |
| Randall & Quilter Consultants Limited | England | Service | 100% |
| Reinsurance Finance Management Limited | England | Service | 100% |
| Transport Insurance Company | USA | Ins co. | 100% |

- 8.2 Except for EC3 Solutions Limited, the above companies are directly or indirectly wholly-owned by the Company. Those companies registered in England have their registered office at 9-13 Fenchurch Buildings, London EC3M 5HR. Each company operates principally within the jurisdiction in which it is registered.

9. Placing and lock-in arrangements

Under an agreement dated 7 December 2007 (the “Placing Agreement”) and made between Noble (1), Numis (2), the Directors (3), the Vendors (4) and the Company (5), Noble and Numis have agreed (conditionally, *inter alia*, on Admission taking place not later than 20 December 2007) as agent for the Company to procure subscribers for the New Ordinary Shares and as agent for the Vendors to procure purchasers for the Vendor Placing Shares, in each case at the Placing Price.

Under the Placing Agreement and subject to its becoming unconditional:

- 9.1 the Company has agreed to pay Noble and Numis commissions aggregating 3.5 per cent. of the value at the Placing Price of the New Ordinary Shares for which Noble and/or Numis procure subscribers, together with corporate finance fees; and
- 9.2 the Vendors have agreed to pay Noble and Numis commissions aggregating 3.5 per cent. of the value at the Placing Price of the Vendor Placing Shares for which Noble and/or Numis procure purchasers, together in each case with any applicable VAT.

The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing including all fees and expenses payable in connection with Admission, expenses of the registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses, except that the Vendors will be responsible for any stamp duty or stamp duty reserve tax arising in respect of the Vendor Placing Shares sold by them.

The Placing Agreement contains representations, warranties and indemnities given by the Company and warranties given by the Directors to Noble and Numis as to the accuracy of the information contained in this document and other matters relating to the Group and its business. Noble and Numis are entitled to terminate the Placing Agreement in certain specified circumstances prior to Admission.

The Directors and the Vendors have undertaken to Noble and Numis, subject to certain limited exceptions, that they will not (and to procure that their respective connected persons will not) sell or dispose of any of their respective interests in Ordinary Shares at any time before the first anniversary of Admission without the prior written consent of Noble and Numis and, for the 12 months thereafter they will not (and will procure that their respective connected persons will not) sell or dispose of any of their respective interests in Ordinary Shares except through Noble and/or Numis.

10. The City Code

10.1 *Mandatory takeover bids*

The City Code on Takeovers and Mergers (the “Code”) applies to all takeover and merger transactions in relation to the Company, and operates principally to ensure that shareholders are treated fairly and are not denied an opportunity to decide on the merits of a takeover and that shareholders of the same class are afforded equivalent treatment. The Code provides an orderly framework within which takeovers are conducted and the Panel on Takeovers and Mergers has now been placed on a statutory footing.

The Code is based upon a number of General Principles which are essentially statements of standards of commercial behaviour. General Principle One states that all holders of securities of an offeree company of the same class must be afforded equivalent treatment and if a person acquires control of a company, the other holders of securities must be protected. This is reinforced by Rule 9 of the Code which requires a person, together with persons acting in concert with him, who acquires shares carrying voting rights which amount to 30 per cent. or more of the voting rights to make a general offer. “Voting rights” for these purposes means all the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting. A general offer will also be required where a person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights, acquires additional shares which increase his percentage of the voting rights. Unless the Panel consents, the offer must be made to all other shareholders, be in cash (or have a cash alternative) and cannot be conditional on anything other than the securing of acceptances which will result in the offeror and persons acting in concert with him holding shares carrying more than 50 per cent. of the voting rights.

There are not in existence any current mandatory takeover bids in relation to the Company.

10.2 *Squeeze out*

Section 979 of the 2006 Act provides that if, within certain time limits, an offer is made for the share capital of the Company, the offeror is entitled to acquire compulsorily any remaining shares if it has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. in value of the shares to which the offer relates and in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares. The offeror would effect the compulsory acquisition by sending a notice to outstanding shareholders telling them that it will compulsorily acquire their shares and then, six weeks from the date of the notice, pay the consideration for the shares to the Company to hold on trust for the outstanding shareholders. The consideration offered to shareholders whose shares are compulsorily acquired under the 2006 Act must, in general, be the same as the consideration available under the takeover offer.

10.3 *Sell out*

Section 983 of the 2006 Act permits a minority shareholder to require an offeror to acquire its shares if the offeror has acquired or contracted to acquire shares in the Company which amount to not less than 90 per cent. in value of all the voting shares in the Company and carry not less than 90 per cent. of the voting rights. Certain time limits apply to this entitlement. If a shareholder exercises its rights under these provisions, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

11. Notifications of shareholdings

The provisions of DTR 5 will apply to the Company and its Shareholders once its shares are admitted to AIM. DTR 5 sets out the notification requirements for Shareholders and the Company where the voting rights of a Shareholder exceed, reach or fall below the threshold of 3 per cent. and each 1 per cent. thereafter up to 100 per cent. DTR 5 provides that disclosure by a Shareholder to the Company must be made within two trading days of the event giving rise to the notification requirement and the Company must release details to a regulatory information service as soon as possible following receipt of a notification.

12. United Kingdom Taxation

This paragraph is intended as a general guide to UK current tax law and practice in the areas referred to below. It applies to persons who (unless the position of non-resident shareholders is expressly referred to) are resident or ordinarily resident in the UK for tax purposes and who beneficially own shares as investments (and not as employment-related securities). Any person who is in doubt as to his or her tax position or requires further information should consult an appropriate professional adviser.

12.1 *UK taxation of dividends*

No tax will be withheld by the Company when it pays dividends under current United Kingdom tax legislation.

12.1.1 *Individual and trustee shareholders*

12.1.1.1 An individual shareholder, resident for tax purposes in the United Kingdom, who receives a dividend from the Company will be entitled to a tax credit equal to one ninth of the amount of the net dividend which is also equivalent to a tax credit of 10 per cent. of the sum of the net dividend and the tax credit (the “gross dividend”).

12.1.1.2 Individual shareholders resident for tax purposes in the United Kingdom will be liable to income tax on the amount of the gross dividend. Dividend income will be treated as the top slice of an individual’s income. The tax credit referred to in subparagraph 12.1.1.1 above will discharge the liability to income tax in respect of the dividend of an individual shareholder who is subject to United Kingdom income tax at the lower or basic rate only. Higher rate taxpayers will be able to offset the tax credit against their liability to income tax on the gross dividend. A higher rate taxpayer will be liable to income tax on the gross dividend at a rate of 32.5 per cent. After setting off the tax credit, a higher rate tax payer will be liable to an additional income tax equal to 25 per cent. of the net dividend. However, if an individual United Kingdom resident shareholder’s total tax credit on such dividends exceeds his overall United Kingdom tax liability, the excess tax credit is not repayable.

12.1.1.3 For dividends paid to trustees of United Kingdom resident discretionary or accumulation trusts the gross dividend will be subject to United Kingdom income tax at a rate of 32.5 per cent. with a tax credit equal to 10 per cent. of the gross dividend.

12.1.1.4 The amount of the tax credit in respect of a dividend paid which constitutes income of a pension fund, charity or venture capital trust, will not be repaid.

12.1.2 *Corporate shareholders*

A corporate shareholder (other than a share dealer) resident for tax purposes in the United Kingdom will not generally be liable to United Kingdom corporation tax on dividends received from another UK tax resident company.

12.1.3 *Non-resident shareholders*

Shareholders who are not United Kingdom resident will not generally be able to claim repayment from HM Revenue and Customs of any part of the tax credit attaching to dividends

paid by the Company. Persons who are not resident in the United Kingdom should consult their own tax advisers concerning his tax liabilities on dividends received from the Company.

12.2 *Taxation on capital gains for shareholders*

If a shareholder disposes of all or any of his or its Ordinary Shares, he or it may, depending on the shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

HM Revenue and Customs have confirmed that securities dealt with on AIM will not fall to be treated as listed or quoted securities for tax purposes. There are a number of tax reliefs available for unquoted securities (subject to a number of different requirements in each case) and anyone who requires further information on this should consult an appropriate professional adviser. Taxation of capital gains is likely to change under the proposed amendments to the current UK tax legislation as disclosed in the 2007 pre-budget report.

12.3 *Stamp duty and stamp duty reserve tax ("SDRT")*

12.3.1 Except as disclosed in sub-paragraph 12.3.4 below, no liability to stamp duty or SDRT will arise on the issue or allotment of new Ordinary Shares by the Company pursuant to the Placing.

12.3.2 Except as mentioned in sub paragraph 12.3.4 below, the transfer of existing Ordinary Shares by the Selling Shareholders will be liable to *ad valorem* stamp duty at the rate (in broad terms) of 0.5 per cent. (rounded up to the nearest £5) of the amount or value of the consideration paid or, if an unconditional agreement to transfer the shares is not immediately completed by a duly stamped transfer or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid. The Selling Shareholders have undertaken in the Placing Agreement to bear the stamp duty or SDRT under section 67, 70, 93 or 96 of the Finance Act 1986 (as referred to below). Each applicant will be required to give confirmation in his application that the increased rate stamp duty and SDRT charges do not apply to them.

12.3.3 Except as mentioned in sub-paragraph 12.3.4 below, the transfer on sale of the new Ordinary Shares, both before and after the issue of certificates, and the transfer on sale of existing Ordinary Shares will generally be liable to *ad valorem* stamp duty at the rate (in broad terms) of 0.5 per cent. of the amount or value of the consideration paid or, if an unconditional agreement to transfer the shares is not immediately completed by a duly stamped transfer or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid. Liability to pay the stamp duty or SDRT is that of the transferee or purchaser. In the case of transfers in CREST, SDRT will be collected in CREST in accordance with the rules of the CREST system.

12.3.4 Where a charge to stamp duty or SDRT arises under sections 67, 70, 93 or 96 of the Finance Act 1986 (which broadly apply where ordinary shares are transferred or, in certain circumstances, are issued to persons who issue depository receipts or provide clearance services, or their nominees or agents), stamp duty at the higher rate (in broad terms) of 1.5 per cent. or SDRT at the higher rate of 1.5 per cent. (as appropriate) will be payable on the amount or value of the consideration paid for the issue or subsequent transfer.

12.4 The contents of this paragraph 12 are based on current UK tax laws and HM Revenue & Customs practice and does not constitute tax advice. If any individual is in any doubt as to their tax position they should seek their own professional advice.

13. **Material contracts**

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group in the two years immediately preceding the date of this document or which are expected to be entered into prior to Admission and which are, or may be, material or which have been entered into at any time by any member of the Group and which contain any provision

under which any member of the Group has any obligation or entitlement which is, or may be, material to the Group as at the date of this document:

- 13.1 the Placing Agreement, details of which are set out in paragraph 9 above; and
- 13.2 A share sale and purchase agreement dated 30 June 2004 between Great American Insurance Company (“GAIC”) and the Company for the purchase of the entire issued share capital of Transport Insurance Company (“Transport”) for a total consideration of \$1.00. The agreement provided for a completion accounts mechanism based on a balance sheet of Transport prepared as of the time immediately prior to completion.

Pursuant to the agreement, GAIC was entitled to the first \$3,600,000 of reinsurance receivable received by Transport under reinsurance provided by Transport to four specified entities, up to a maximum of \$3,600,000. GAIC and the Company have since entered into three amendments to the agreement in respect of this amount. The latest of these was signed on 24 April 2007 and reduced the maximum amount of receivables payable to \$1,425,000.

On 30 June 2004, Transport entered into an aggregate reinsurance agreement with National Insurance Company (“NIC”) pursuant to which NIC agreed to reimburse Transport up to a maximum amount of \$120,000,000 for sums paid by Transport in satisfaction of its liabilities and obligations, including any claims and uncollectible reinsurance, under any and all reinsurance policies or contracts entered into by Transport related to or in connection with all insurance and reinsurance business of Transport.

- 13.3 A share sale and purchase agreement dated 5 January 2005 between ACE INA international Holdings, Ltd. (“Ace”), Century Indemnity Company (“Century”) and the Company for the purchase of the entire issued share capitals of R&Q Reinsurance Company (UK) Limited (“R&Q UK”), R&Q Reinsurance Company (Belgium) (“R&Q Belgium”) and R&Q Reinsurance Company (“R&Q Re”) (together the “R&Q Re Companies”) for a total consideration of \$3.00 in cash, plus the issue of the Preference A Share and the Preference B Share. The agreement provided for a completion accounts mechanism based on the balance sheets of the R&Q Re prepared as of the time immediately prior to completion. The agreement completed on 3 July 2006. Full details of the rights attaching to the Preference A Share and the Preference B Share are set out in the summary of the articles of association of the Company in paragraph 4 of this Part IX.

Century is entitled to a preference dividend representing half of any distribution received by the Company or any of its affiliates, net of any tax payable thereon, in respect of the capital stock or surplus of R&Q Re, up to a maximum payment of \$5,000,000. Ace are entitled to a preference dividend representing half of any profits received by the Group, net of any tax payable thereon, in respect of the capital stock or surplus of R&Q UK, up to a maximum payment of \$10,000,000.

Pursuant to the agreement, Ace and Century provided the Company with a suite of warranties. The period of liability in respect of these warranties (other than in relation to tax and employment matters) expires at the end of four months following the end of the first calendar year following completion (30 April 2008). The agreement also contained a tax indemnity from Ace and Century in favour of the Company in respect of the tax affairs of the R&Q Re Companies prior to completion. Liability under the warranties in relation to tax and employment matters and under the tax indemnity will terminate upon the expiry of the statutory limitation period under New York law.

- 13.4 A share sale and purchase agreement dated 17 August 2006 between Tryg Forsikring A/S (“Tryg”) and the Company for the purchase of the entire issued share capital of Chevanstell Limited for a total consideration of £13,000,000. The agreement provided for a completion accounts mechanism based on a balance sheet of Chevanstell Limited prepared as of the time immediately prior to completion (which took place on 10 November 2006). The Company was also obliged to pay into settlement accounts sums pursuant to two commutations involving Chevanstell Limited.

Pursuant to the agreement, Tryg provided the Company with a suite of warranties and the same parties entered into a tax deed at completion, pursuant to which Tryg agreed to indemnify the Company in relation to the tax affairs of Chevanstell Limited prior to completion of the agreement. Tryg’s

maximum aggregate liability under the warranties and the tax deed was £13,000,000. Claims under the warranties must be made by 31 December 2007 and claims under the tax warranties and/or the tax deed within six years of completion.

On 10 November 2006, Tryg and the Company also entered into a deed of indemnity, pursuant to which the Company agreed to indemnify Tryg against any losses incurred by Tryg in connection with four guarantees that it gave in relation to insurance business written by Chevanstell Limited. The Company agreed to use reasonable endeavours to procure the release of the discharge within a reasonable period of time.

- 13.5 A share sale and purchase agreement dated 1 December 2006 between Esso Holding Company U.K. Inc (“Esso”) and Chevanstell Limited for the purchase of the entire issued share capital of Arran Insurance Company Limited (“Arran”) (then called Ancon Insurance Company (U.K.) Limited) for a total consideration of \$4,100,000.

Pursuant to the agreement, Esso provided Chevanstell Limited with a suite of warranties and the same parties entered into a tax deed on 21 December 2006 (the date of completion of the agreement), pursuant to which Esso agreed to indemnify Chevanstell Limited in relation to the tax affairs of Arran prior to completion of the agreement. Esso’s maximum aggregate liability under the warranties and the tax deed was \$4,100,000. Claims under the warranties must be made within two years of completion and claims under the tax warranties and/or the tax deed within six years of completion.

- 13.6 A facilities agreement dated 31 May 2007 between the Company, Randall & Quilter Consultants Limited (“RQCL”), Cavell Management Services Limited (“CMSL”) and The Royal Bank of Scotland plc acting as agent for National Westminster Bank plc (“NatWest”). Pursuant to this agreement, NatWest agreed to provide to the Company a £12,500,000 term loan facility and a £7,500,000 revolving credit facility (the “Facilities”). RQCL and CMSL agreed to guarantee the Company’s obligations under the agreement. The agreement provides that upon the flotation of the Company on, *inter alia*, AIM, the Facilities will be cancelled and all sums outstanding thereunder must be repaid. However, NatWest has agreed to waive this requirement conditional on receiving a repayment of £6 million. The Company is currently in negotiations with NatWest in respect of replacement facilities.
- 13.7 The share sale and purchase agreement between the Company and Alan Quilter, details of which are set out in paragraph 14.1 of this Part IX.

14. Related party transactions

The following related party transactions are transactions which, as a single transaction or in their entirety, are or may be material to the Company and have been entered into by the Company or any other member of the Group during the period commencing on 1 January 2004 and terminating immediately prior to the date of this document. Each of the transactions was concluded at arm’s length.

- 14.1 On 20 November 2007, the Company entered into a share sale and purchase agreement with Alan Quilter for the purchase of 24.5 per cent. of the issued share capital of Reinsurance Financial Management Services Limited. In consideration for the purchase of these shares, the Company issued to Alan Quilter 2,665,000 ordinary shares of 1p each in the capital of the Company.
- 14.2 On 5 September 2007, the Company entered into a share sale and purchase agreement dated 5 September 2007 between R&Q Reinsurance Company, Cavell America, Inc., the Company and Ken Randall Associates Limited for the purchase of the entire issued share capital of R&Q Reinsurance Company (Belgium) for a total consideration of \$1,290,001.
- 14.3 At 1 January 2004 and until 3 March 2006 and 11 April 2006 respectively, Dukes Place Holdings LP held an indirect minority interest in Cavell Management Services Limited (“CMSL”) and a direct minority interest in Cavell USA, Inc. (“Cavell USA”). During the financial periods ended 31 December 2004, 31 December 2005 and 31 December 2006, Renaissance Capital Partners Limited (“RCP”) provided management and other services to Dukes Place Holdings LP and its subsidiaries (“together, “Dukes Place”), with whom it had an exclusive agreement; the agreement ended on

31 December 2006. Fees received by RCP from Dukes Place in the financial periods ended 31 December 2004, 31 December 2005 and 31 December 2006 were £568,333, £580,000 and £560,000 respectively.

- 14.4 Ken Randall and Alan Quilter have each provided the Company with loan facilities during the financial periods ended 31 December 2004, 31 December 2005 and 31 December 2006. All loans were made at an interest rate of 6.5 per cent. per annum. As at the date of this document there are no sums owing by any member of the Group to Ken Randall or to Alan Quilter as a result of any loan facility.
- 14.5 On 7 July 2006, Ludgate and Ken Randall and his wife entered into an agreement for the purchase by Mr and Mrs Randall of a freehold property in Kent for a consideration of £500,000 (representing the market value of the property as assessed at 31 December 2005). At the same time as the completion of the purchase of the property, Mr and Mrs Randall entered into an agreement for the sale and leaseback of the property, pursuant to which Ludgate pays to Mr and Mrs Randall £18,000 per annum.
- 14.6 At 1 January 2004 and until 3 March 2006, Cavell Holdings Limited (“CHL”) (of which Ken Randall was a director) held a 25 per cent. interest in the issued share capital of CMSL. During the financial periods ended 31 December 2004, 31 December 2005 and 31 December 2006, CMSL provided management services to a wholly-owned subsidiary of CHL, Cavell Insurance Company Limited (“CICL”). Fees received by CMSL in respect of these services in the financial periods ended 31 December 2004, 31 December 2005 and 31 December 2006 were £1,405,000, £2,381,000 and £1,625,000 respectively. In addition, CMSL leases premises owned by CICL and has been granted a rent-free period from 1 January 2003 until 31 December 2007.
- 14.7 On 20 July 2005, the Company, Cavell USA and EC3 Solutions (“EC3”) entered into a licence agreement, pursuant to which EC3 granted to the Company and Cavell USA an unlimited, irrevocable, perpetual licence to use the software developed under a development agreement between the same parties dated 9 July 2002.
- 14.8 Jo Welman is a shareholder in Syndicate Asset Management plc, the ultimate holding company of EPIC Investment Partners Limited and a director of EPIC Investment Partners Limited and various subsidiaries (together, “EPIC”). EPIC provides investment management services to Transport Insurance Company Limited, R&Q Resinsurance Company (UK) Limited, R&Q Reinsurance Company (Belgium) and Chevanstell Limited. In total, fees paid to EPIC by the Group in the financial periods ended 31 December 2004, 31 December 2005 and 31 December 2006 and from 1 January 2007 to the date of this document were £nil, £18,000, £15,000 and £67,000.
- 14.9 Until 28 February 2006, Ken Randall was a director of Dukes Place Holdings Limited, the Bermudan general partner of Dukes Place, an exempt limited partnership domiciled in Bermuda. In 2003, Dukes Place acquired Cavell Insurance Company (“CIC”), of which CMSL was a wholly-owned subsidiary. Dukes Place entered into an agreement with the Company pursuant to which the Company managed CMSL and granted the Company an option to purchase 75 per cent. of the issued share capital in CMSL for \$400,000, which it exercised in December 2003. The remaining 25 per cent. of the issued share capital was purchased in 2006.

Until 31 March 2006, Cavell USA managed the run-off of Seaton Insurance Company and Stonewall Insurance Company, when the agreement for the provision of such services between Cavell USA and Dukes Place and certain of its subsidiaries was terminated. Subsequently, this termination has been the subject of the litigation details of which are set out in paragraph 16.1 of this Part IX.

There are currently no contracts in effect between the Group and Dukes Place.

15. Working capital

The Directors are of the opinion (having made due and careful enquiry) that, after taking into account the financing facilities available and the net proceeds of the Placing, the working capital of the Group will be sufficient for its present requirements, that is, for at least the period of 12 months from the date of Admission.

16. Litigation

Save as disclosed below, no member of the Group is or has been involved in any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against any member of the Group.

16.1 In August 2007, Seaton Insurance Company ("Seaton") and Stonewall Insurance Company ("Stonewall") filed a complaint in New York (the "Complaint") against (i) Cavell USA, Inc. ("Cavell USA"), a wholly owned subsidiary of the Company and (ii) Ken Randall. The allegations in the Complaint arise from run-off management agreements between Cavell USA and Seaton and Stonewall respectively (the "Run-Off Management Agreements"). The Run-Off Management Agreements were terminated with effect from 31 March 2006 by mutual consent through a term sheet entered into in February 2006. The Complaint alleges fraudulent misrepresentation and concealment against Cavell USA and Ken Randall (as those expressions are understood in the US). The Complaint further alleges that Cavell USA and Ken Randall's misrepresentations and concealment comprise unfair and deceptive acts and practices in trade or commerce in breach of Massachusetts statute. Under the Complaint, Seaton and Stonewall are claiming significant unquantified sums from Cavell USA and Ken Randall. Cavell USA and Ken Randall are strongly contesting the claim. All of the Directors believe the Complaint to be vexatious and without merit and having taken US and UK appropriate legal advice (including from Leading Counsel), are satisfied that Cavell USA and Ken Randall are unlikely to have any liability for the amounts claimed.

16.2 R&Q Re (UK) and Chevanstell are involved in a large number of arbitration matters with Equitas Limited ("Equitas"). Equitas has served numerous arbitration notices against R&Q UK and Chevanstell and Ace European Group Limited ("AEGL") in respect of more than 4,000 claims on various contracts of reinsurance under which R&Q UK, Chevanstell and AEGL reinsured various Lloyd's syndicates. Whilst, as described in paragraph 16.3 below, the Group is routinely involved in a large number of arbitrations and other proceedings as a result of the nature of its business, the Equitas proceedings are particularly numerous and could therefore have a more significant effect on the financial position of the Group. The total amount claimed by Equitas under the various proceedings is significant but the Directors are satisfied that appropriate reserves have been made to reflect this.

16.3 The nature of the Group's business and the industry in which it operates means that the Group is routinely and constantly involved in a number of litigation proceedings (including arbitrations). The directors consider these proceedings to be part of the ordinary course of business of the Group and are satisfied that the Group's accounts make appropriate provision for this litigation. In their management of the Group and their assessment of the financial affairs of the Group, the directors have taken into account the large volume of litigation and the fact that the Group will be successful in certain matters and unsuccessful in others.

16.4 At the date of this document, the Company is contemplating issuing proceedings against Tryg Forsikring A/S ("Tryg") in connection with a breach of warranty pursuant to the sale and purchase agreement between Tryg and the Company details of which are set out in paragraph 13.4 of this Part IX. No formal proceedings have yet been commenced, although the Company has given notice to Tryg of the possibility of such proceedings. The value of the proposed claim is approximately £3,000,000.

17. General

17.1 There has been no significant change in the financial or trading position of the Group since 30 September 2007, the date to which the last audited accounts of the Group were prepared.

17.2 The estimated costs and expenses relating to the Placing (including those fees and commissions referred to in paragraph 9 above) payable by the Company are estimated to amount to approximately £2.9 million (excluding VAT). The total net proceeds of the Placing available to the Company, after settling fees, will be £17.1 million.

- 17.3 In the opinion of the Directors, the estimated net proceeds of the Placing are approximately £17.1 million which will be applied as follows:
- 17.3.1 Reduction of borrowings
- £14.0 million
- 17.3.2 Working capital
- £3.1 million
- 17.4 The financial information set out in this document relating to the Group does not constitute statutory accounts within the meaning of section 240 of the Act. CLB Littlejohn Frazer (previously known as Littlejohn Frazer), chartered accountants of 1 Park Place, Canary Wharf, London E14 4HJ have been the auditors of the Company for the three financial years ended 31 December 2006 and have given unqualified audit reports on the statutory accounts of the Company for those financial years within the meaning of section 235 of the Act. None of those reports contained any statements under section 237(2) or (3) of the Act. Statutory accounts of the Company for each of the three financial years ended 31 December 2006 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Act.
- 17.5 CLB Littlejohn Frazer have given and not withdrawn their written consent to the issue of this document with the inclusion in it of their reports in Parts V and VI and the references to their reports and to their name in the form and in the context in which it is included and have authorised the contents of Part V of this document. CLB Littlejohn Frazer has no material interest in the Company.
- 17.6 Noble is registered in Scotland under number SC127487 and its registered office is at 76 George Street, Edinburgh EH2 3BU. Noble is regulated by the Financial Services Authority and is acting in the capacity as nominated adviser and joint broker to the Company.
- 17.7 Noble has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 17.8 Numis is registered in England under number 02285918 and its registered office is at The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. Numis is regulated by the Financial Services Authority and is acting in the capacity as joint broker and bookrunner to the Company.
- 17.9 Numis has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 17.10 Save as otherwise disclosed in this document there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability.
- 17.11 Save as disclosed in paragraphs 7.2.2 and 7.4 of this Part IX, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- 17.11.1 received, directly or indirectly, from the Company within the 12 months preceding the date of application for Admission; or
- 17.11.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission;
- any of the following:
- 17.11.2.1 fees totalling £10,000 or more;
- 17.11.2.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or

17.11.2.3 any other benefit with a value of £10,000 or more at the date of Admission.

17.12 The Admission Document will be available on the Company's website at www.rqih.co.uk.

13 December 2007

PART X

DEFINITIONS

In this document, where the context permits, the expressions set out below shall bear the following meanings:

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| “2006 Act” | the Companies Act 2006; |
| “Act” | the Companies Act 1985, as amended; |
| “Admission” | the admission of the Existing Ordinary Shares and the Placing Shares to trading on AIM and such admission becoming effective in accordance with the AIM Rules; |
| “AIM” | the market of that name operated by the London Stock Exchange; |
| “AIM Rules” | the AIM Rules For Companies as issued by the London Stock Exchange from time to time; |
| “Arran” | Arran Insurance Company Limited; |
| “Articles” | the Articles of Association of Randall & Quilter; |
| “Berkshire Hathaway” | Berkshire Hathaway Inc; |
| “Board” or “Directors” | the directors of Randall & Quilter, whose names are set out on page 3 of this document; |
| “Code” | the City Code on Takeovers and Mergers; |
| “Chevanstell” | Chevanstell Limited; |
| “Combined Code” | the Principles of Good Governance and the Code of Best Practice published in June 2006 by the Financial Reporting Council; |
| “Companies Acts” | the 2006 Act and the Act; |
| the “Company” or “Randall & Quilter” | Randall & Quilter Investment Holdings plc, a company incorporated in England and Wales on 20 November 1998 with company number 3671097; |
| “CREST” | the computerised settlement system used to facilitate the transfer of title to shares in uncertified form operated by EuroClear UK and Ireland Limited; |
| “Dukes Place” | Dukes Place Holdings Limited L.P.; |
| “Eastgate Group” or “Eastgate” | Eastgate Group Limited; |
| “Enlarged Ordinary Share Capital” | the issued ordinary share capital of the Company immediately following the Placing and Admission, comprising the Existing Ordinary Shares and the New Ordinary Shares; |
| “Executive Directors” | Kenneth Randall and Alan Quilter; |
| “Existing Ordinary Shares” | the 39,902,500 Ordinary Shares in issue prior to the Placing; |
| “FSA” | the Financial Services Authority, the single statutory regulator under FSMA; |

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| “FSMA” | the Financial Services and Markets Act 2000 as amended; |
| “Group Insurance Companies” | insurance companies in run-off owned by the Group; |
| “Group” | the Company and its wholly owned subsidiaries from time to time; |
| “IFRS” | International Financial Reporting Standards; |
| “La Metropole” | La Metropole S.A.; |
| “Lloyd’s” | the Society incorporated by the Lloyd’s Act 1871 with the name of Lloyd’s; |
| “London Stock Exchange” | London Stock Exchange plc; |
| “Ludgate” | Ludgate Insurance Company Limited; |
| “New Ordinary Shares” | the 16,000,000 new Ordinary Shares issued by the Company pursuant to the Placing; |
| “Noble” | Noble & Company Limited, a company incorporated in Scotland (registered number SC127487) and having its registered office at 76 George Street, Edinburgh, EH2 3BU and authorised and regulated by the Financial Services Authority; |
| “Nomad Rules” | the AIM Rules For Nominated Advisers as issued by the London Stock Exchange from time to time; |
| “Numis” | Numis Securities Limited, a company incorporated in England and Wales (registered number 2285918) and having its registered office at 10 Paternoster Square, London EC4M 7LT and authorised and regulated by the Financial Services Authority; |
| “Official List” | the Official List of the UK Listing Authority; |
| “Ordinary Shares” | ordinary shares of 2p each in the capital of the Company; |
| “Panel” | the Panel on Takeovers and Mergers; |
| “Placing” | the conditional placing by Noble and Numis, each or as agent for the Company and the Vendors, of the Placing Shares pursuant to the Placing Agreement as described in paragraph 9 of Part IX of this document; |
| “Placing Agreement” | the conditional agreement dated 7 December 2007 between (1) Randall & Quilter, (2) the Directors, (3) the Vendors, (4) Noble and (5) Numis, further details of which are set out in paragraph 9 of Part IX of this document; |
| “Placing Price” | 125p; |
| “Placing Shares” | the New Ordinary Shares and the Vendor Placing Shares; |
| “Preference A Share” | the cumulative redeemable Preference A share of £1 in the capital of the Company; |
| “Preference B Share” | the cumulative redeemable Preference B share of £1 in the capital of the Company; |

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| “R&Q Re Belgium” | R&Q Reinsurance Company (Belgium); |
| “R&Q Re (UK)” | R&Q Reinsurance (UK) Limited; |
| “R&Q Re (US)” | R&Q Reinsurance Company; |
| “RFML” | Reinsurance Finance Management Limited; |
| “Shareholders” | holders of Ordinary Shares; |
| “Share Option Plans” | the Randall & Quilter Investment Holdings Limited Long Term Incentive Plan, the Randall & Quilter Investment Holdings Limited Executive Performance Share Plan and the Randall & Quilter Holdings Limited Deferred Bonus Share Plan, details of which are set out in paragraph 5 of Part IX of this document; |
| “Transport” | Transport Insurance Company; |
| “United Kingdom” or “UK” | the United Kingdom of Great Britain and Northern Ireland; |
| “United States” or “US” | United States of America, its territories and possessions, any state of the United States and the District of Columbia; |
| “US\$”, “\$” or “United States Dollar” | the lawful currency of the United States of America; |
| “UK Listing Authority” | the Financial Services Authority acting in its capacity as the competent authority for the purposes of FSMA; |
| “Vendors” | Ken Randall, Alan Quilter and Mark Randall, who are selling the Vendor Placing Shares pursuant to the Placing; |
| “Vendor Placing Shares” | the 8,800,000 Ordinary Shares, representing approximately 15.7 per cent. of the Enlarged Ordinary Share Capital, being sold by the Vendors pursuant to the Placing. |

The logo consists of the letters 'R&Q' in a white, serif font, centered within a dark red square.

R&Q

Randall & Quilter Investment Holdings plc

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