

2918089



Hampden

## Hampden Plc

Report and Financial Statements  
Year ended 31 December 2006

MONDAY



A28 \*AFWL1ROM\* 403  
30/07/2007  
COMPANIES HOUSE

Company No 2918089

## CONTENTS

|                                       | Page    |
|---------------------------------------|---------|
| Company information                   | 1       |
| Report of the directors               | 2 - 4   |
| Independent auditors' report          | 5 - 6   |
| Insurance companies technical account | 7       |
| Consolidated profit and loss account  | 8       |
| Consolidated balance sheet            | 9       |
| Company Balance sheet                 | 10      |
| Consolidated cash flow statement      | 11      |
| Notes to the financial statements     | 12 - 33 |

---

**COMPANY INFORMATION**

|           |  |          |
|-----------|--|----------|
| Directors | T P C Oliver<br>C G Camroux-Oliver<br>M W Gerard<br>C J Ridgwell | Chairman |
|-----------|--|----------|

|           |                   |
|-----------|-------------------|
| Secretary | Hampden Legal Plc |
|-----------|-------------------|

|                   |   |
|-------------------|---|
| Registered office | Hampden House<br>Great Hampden<br>Great Missenden<br>Bucks HP16 9RD |
|-------------------|---|

|                   |          |
|-------------------|----------|
| Registered number | 02918089 |
|-------------------|----------|

|          |  |
|----------|--|
| Auditors | Seymour Taylor<br>Chartered Accountants<br>Registered Auditors<br>57 London Road<br>High Wycombe<br>Bucks HP11 1BS |
|----------|--|

## REPORT OF THE DIRECTORS

The directors present their report and financial statements for the year ended 31 December 2006

### Principal activities

The principal activity of the group is that of an insurance management services provider together with the provision of company secretarial administration and legal support services

### Business review and future developments

On 29 June 2006 Hampden Insurance Group BV acquired the share capital of NV Algemene Verzekering Maatschappij "De Zee", a Dutch Insurance Company in run-off. Management intend to merge N V Schaderverzekeringsmaatschappij Maasloyd with NV Algemene Verzekering Maatschappij "De Zee" in 2007

On 1 January 2005 a group reorganisation took place. The entire issued share capital of Hampden Legal Plc, a group company, was transferred to Hampden Holdings Limited, and the Company acquired the entire issued share capital of Hampden Insurance Group Limited, Hampden Group Management Limited, and each of their respective subsidiary undertakings

On 19 March 2004, Lakewood Insurance Company Limited, a wholly owned subsidiary, received approval to enter into a solvent scheme of arrangement with its insurance creditors. The scheme was successfully completed during July 2005 and with effect from 1 September 2005 the company is no longer authorised to act as an insurance company

On 23 July 2004, AA Mutual International Insurance Company Limited, a wholly owned subsidiary of the company, applied for and was granted an administration order. Since this date the company has been managed by the appointed administrators and remains in administration at the date of this report, and therefore the results of the company are not consolidated within these financial statements

On 31 December 2004, the company formed a new wholly owned subsidiary company in The Netherlands, Hampden Insurance Group BV. On this date, with the permission of the Dutch insurance regulator, the ownership of the company's two wholly owned Dutch companies, Hampden Insurance NV and N V Schaderverzekeringsmaatschappij Maasloyd, was transferred to Hampden Insurance Group BV

The directors consider the group to be in a good position to take advantage of future opportunities

### Results and dividends

The results of the group for the year ended 31 December 2006 are set out in the financial statements on pages 7 to 33. Attention is drawn to note 16 in respect of the decision of the directors not to consolidate the financial statements of Hampden Insurance NV

The directors do not recommend the payment of a dividend (2005 £Nil)

The profit for the year after taxation and dividends has been transferred to reserves

## **REPORT OF THE DIRECTORS**

(continued)

### **Directors**

The directors set out below have held office during the whole of the period from 1 January 2006 to the date of this report unless otherwise stated

T P C Oliver  
C G Camroux-Oliver  
M W Gerard  
T A E Kalmeborg (resigned 18 October 2006)  
K W Haddon (resigned 13 March 2007)  
C J Ridgwell

T P C Oliver, C G Camroux-Oliver, and M W Gerard are directors of Hampden Holdings Limited

As permitted by statutory instrument, the Register of Directors' Shareholdings maintained by the company does not include details of any shareholding of directors who are also directors of the company's ultimate parent company, Hampden Holdings Limited. The directors' interests in the shares of the ultimate holding company are disclosed in the annual report of that company.

### **Financial risk management**

The group's operations expose it to a number of financial risks that include changes in debt and equity market prices, credit risks, liquidity risk and interest rate risk. The board has reviewed the risks posed to the group from these sources, however, given the size of the group the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee. Where appropriate, financial risk policies are set by the board of the subsidiary companies and implemented by the group's finance department. In the opinion of the board the material financial risks to the Company are limited to the recoverability of debtor balances, the payment of creditor balances and maintenance of cash balances. The directors have reviewed the recoverability of debtor balances and are satisfied that they are recoverable. The directors have reviewed the likely payment pattern of creditors and are satisfied that these can be paid from cash balances or from payments due from debtors. The directors are satisfied that the company minimises any credit or liquidity risks by holding cash balances only with UK regulated banks.

### **Charitable Donations**

During the year, charitable donations of £375 (2005 - £302) were made by the group.

### **Auditors**

The auditors, Seymour Taylor, have indicated their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting.

**REPORT OF THE DIRECTORS**  
(continued)

**Statement of directors' responsibilities for the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- follow applicable accounting standards, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

In so far as the directors are aware,

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant information and to establish that the auditor is aware of that information.

**Approval**

The report of the directors was approved by the Board on 27 July 2007 and signed on its behalf by



Hampden Legal Plc  
Secretary

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HAMPDEN PLC

We have audited the financial statements of Hampden Plc, for the year ended 31 December 2006, which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's shareholders as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the directors and the auditor

As described in the Directors' report, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements in it. Our responsibilities do not extend to any other information.

### Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group and the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HAMPDEN PLC (continued)

**OPINION**

In our opinion the financial statements

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985 applicable to Insurance Companies and
- the information given in the Directors' Report is consistent with the financial statements

**Emphasis of Matter – going concern**

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to these financial statements concerning the following uncertainties of subsidiary companies within the group

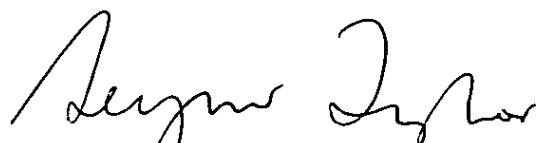
- 1 In forming our opinion, we have considered the adequacy of disclosures made in note 1 & 13 to the financial statements of Community Reinsurance Corporation Limited on pages 10, 16 & 17 concerning the amount provided in respect of potential claims relating to losses in respect of asbestos, pollution and other latent claims and the consequences of substantial variations therein. As explained in note 1 & 13, Community Reinsurance Corporation Limited's ultimate liability will vary as a result of subsequent information and events and may result in material adjustments to the amounts provided.

Having regard to the net asset position of the company, should the adjustments arising from these inherent uncertainties be substantially in excess of the amounts provided, the going concern basis of preparation of the financial statements may not be appropriate. As described in note 1 & 13, adjustments would have to be made to the financial statements in those circumstances and such adjustments could be material.

In view of the adequacy of the disclosures in respect of these matters we have not qualified our opinion.

**Agreed departure from FRS 2**

Attention is drawn to the reference in the directors' report and note 16 to the financial statements in respect of the non consolidation in these financial statements of Hampden Insurance NV, a Dutch company, acquired during 2001. The directors' treatment of these financial statements does not comply with a strict interpretation of FRS 2. We agree with their departure from this regulation on the grounds of truth and fairness of these consolidated financial statements, particularly taking into account the cost of the investment and the groups maximum liability thereto.



Seymour Taylor  
Chartered Accountants  
Registered Auditors  
57 London Road  
High Wycombe  
Buckinghamshire  
HP11 1BS

Date 27<sup>th</sup> July 2007



**INSURANCE COMPANIES' TECHNICAL ACCOUNTS**  
**for the year ended 31 December 2006**

|   |                         |      |             | 2006           | 2005               |
|---|-------------------------|------|-------------|----------------|--------------------|
| General Business                        |                         | Note | £           | £              | £                  |
| Gross premiums written                  |                         |      |             |                |                    |
|   | - continuing business   |      | 28,816      |                | 4,529              |
|   | - discontinued business |      | -           |                | (151,907)          |
|   |                         |      |             | 28,816         | (147,378)          |
| Outwards reinsurance premiums           |                         |      |             |                |                    |
|   | - continuing business   |      | (26,054)    |                | (6,464)            |
|   | - discontinued business |      | -           |                | 58,083             |
|   |                         |      |             | (26,054)       | 51,619             |
| Net premiums written                    |                         |      |             |                |                    |
|   | - continuing business   |      | 2,762       |                | (1,935)            |
|   | - discontinued business |      | -           |                | (93,824)           |
|   |                         |      |             | 2,762          | (95,759)           |
| Other technical income                  |                         |      |             | 3,958          | 33,831             |
| <b>Total technical income</b>           |                         |      |             | <b>6,720</b>   | <b>(61,928)</b>    |
| Claims paid                             |                         |      |             |                |                    |
|   | - gross amount          |      |             |                |                    |
|   | - continuing business   |      | 2,520,768   |                | 2,026,260          |
|   | - discontinued business |      | -           |                | 321,251            |
|   |                         |      |             | 2,520,768      | 2,347,511          |
|   | - reinsurers share      |      |             |                |                    |
|   | - continuing business   |      | (2,396,452) |                | (1,893,448)        |
|   | - discontinued business |      | -           |                | (5,082)            |
|   |                         |      |             | (2,396,452)    | (1,898,530)        |
|   | - net of reinsurance    |      |             |                |                    |
|   | - continuing business   |      | 124,316     |                | 132,812            |
|   | - discontinued business |      | -           |                | 316,169            |
|   |                         |      |             | 124,316        | 448,981            |
| Change in provision for claims          |                         |      |             |                |                    |
|   | - gross amount          |      |             |                |                    |
|   | - continuing business   |      | (2,017,310) |                | 5,754,774          |
|   | - discontinued business |      | -           |                | (3,419,620)        |
|   |                         |      |             | (2,017,310)    | 2,335,154          |
|   | - reinsurers share      |      |             |                |                    |
|   | - continuing business   |      | 1,919,982   |                | (5,564,801)        |
|   | - discontinued business |      | -           |                | 512,648            |
|   |                         |      |             | 1,919,982      | (5,052,153)        |
|   | - net of reinsurance    |      |             |                |                    |
|   | - continuing business   |      | (97,328)    |                | 189,973            |
|   | - discontinued business |      | -           |                | (2,906,972)        |
|   |                         |      |             | (97,328)       | (2,716,999)        |
| Claims incurred net of reinsurance      |                         |      |             |                |                    |
|   | - continuing business   |      | 26,988      |                | 322,785            |
|   | - discontinued business |      | -           |                | (2,590,803)        |
|   |                         | 4    |             | 26,988         | (2,268,018)        |
| Other technical charges                 |                         |      |             | 68,726         | 256,931            |
| <b>Total charges</b>                    |                         |      |             | <b>95,714</b>  | <b>(2,011,087)</b> |
|   |                         |      |             | (88,994)       | 1,949,159          |
| Management charges                      |                         |      |             | 354,490        | 396,114            |
| <b>Balance on the technical account</b> |                         |      | <b>£</b>    | <b>265,496</b> | <b>£ 2,345,273</b> |

The notes on pages 12 to 33 form part of these financial statements

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**for the year ended 31 December 2006**

|  | Note | 2006      |                  | 2005     |               |
|--|------|-----------|------------------|----------|---------------|
|  |      | £         | £                | £        | £             |
| <b>Turnover from operations</b>                      | 7    |           |                  |          |               |
| Commercial activities                                |      |           | 2,493,015        |          | 1,903,807     |
| Balance on the technical accounts                    |      |           | 265,496          |          | 2,345,273     |
|  |      |           | 2,758,511        |          | 4,249,080     |
| Administrative expenses                              |      |           | 1,447,040        |          | 5,057,877     |
| <b>Operating profit/(loss) from operations</b>       | 10   |           | 1,311,471        |          | (808,797)     |
| Gains from the dissolution of a subsidiary           | 31   | 1,587,129 |                  | -        |               |
| Investment Income                                    | 8    | 530,280   |                  | 881,902  |               |
| Interest receivable                                  | 9    | 18,491    |                  | 8,173    |               |
| Interest payable and similar charges                 |      | (32,187)  |                  | (33,234) |               |
|  |      |           | 2,103,713        |          | 856,841       |
| <b>Profit on ordinary activities before taxation</b> |      |           | 3,415,184        |          | 48,044        |
| Tax on profit on ordinary activities                 | 13   |           | (142,192)        |          | (33,741)      |
| <b>Retained profit for the financial year</b>        | 22   | £         | <u>3,272,992</u> | £        | <u>14,303</u> |

All the activities of the group are classed as continuing, except as shown in the Insurance Companies technical accounts

The group has no recognised gains or losses other than the results for the year as set out above

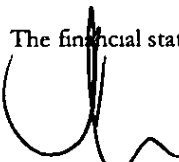
The profit for the year has been calculated on the historical cost basis

The notes on pages 12 to 33 form part of these financial statements

**CONSOLIDATED BALANCE SHEET**  
as at 31 December 2006

|  | Note | 2006        | 2005        |
|--|------|-------------|-------------|
|  |      | £           | £           |
| <b>Fixed assets</b>                                    |      |             |             |
| Intangible assets                                      | 14   |             |             |
| Goodwill - negative                                    |      | (263,091)   | (627,355)   |
| Goodwill - positive                                    |      | -           | 20,790      |
|  |      | (263,091)   | (606,565)   |
| Tangible assets  | 15a  | 9,870       | 21,824      |
| Investments  | 16a  | 7,775,318   | 7,052,174   |
|  |      | 7,522,097   | 6,467,433   |
| <b>Current assets</b>                                  |      |             |             |
| Debtors falling due within one year                    | 18   | 9,078,740   | 8,063,029   |
| Cash at bank and in hand                               |      | 6,086,559   | 6,901,526   |
|  |      | 15,165,299  | 14,964,555  |
| <b>Creditors</b>                                       |      |             |             |
| Amounts falling due within one year                    | 20   | 10,947,658  | 11,009,837  |
| <b>Net current assets</b>                              |      | 4,217,641   | 3,954,718   |
| <b>Total assets less current liabilities</b>           |      | 11,739,738  | 10,422,151  |
| <b>Provisions for liabilities and deferred charges</b> |      |             |             |
| Outstanding dams                                       | 5    | 4,588,704   | 4,912,541   |
| <b>Net assets</b>                                      |      | 7,151,034   | 5,509,610   |
| <b>Capital and reserves</b>                            |      |             |             |
| Called up share capital                                | 21   | 2,484,152   | 2,484,152   |
| Profit and loss account                                | 22   | 4,666,882   | 3,025,458   |
| <b>Equity shareholders' funds</b>                      | 23   | £ 7,151,034 | £ 5,509,610 |

The financial statements were approved by the board on **27** July 2007 and signed on its behalf by

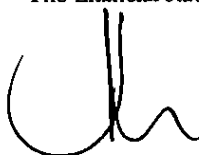

  
T.P.C. Oliver  
Director

The notes on pages 12 to 33 form part of these financial statements

**COMPANY BALANCE SHEET**  
as at 31 December 2006

|  | Note | 2006        | 2005        |
|--|------|-------------|-------------|
|  |      | £           | £           |
| <b>Fixed assets</b>                          |      |             |             |
| Tangible assets                              | 15b  | 6,256       | 14,641      |
| Investments - subsidiary undertakings        | 16b  | 90,404      | 90,404      |
| Investments - other investments              |      | -           | -           |
|  |      | 96,660      | 105,045     |
| <b>Current assets</b>                        |      |             |             |
| Debtors falling due within one year          | 18   | 7,752,420   | 8,475,004   |
| Cash at bank and in hand                     |      | 498,981     | 767,828     |
|  |      | 8,251,401   | 9,242,832   |
| <b>Creditors</b>                             |      |             |             |
| Amounts falling due within one year          | 20   | 5,905,200   | 7,700,992   |
| <b>Net current assets</b>                    |      | 2,346,201   | 1,541,840   |
| <b>Total assets less current liabilities</b> |      | 2,442,861   | 1,646,885   |
| <b>Net assets</b>                            |      | 2,442,861   | 1,646,885   |
| <b>Capital and reserves</b>                  |      |             |             |
| Called up share capital                      | 21   | 2,484,152   | 2,484,152   |
| Profit and loss account                      | 22   | (41,291)    | (837,267)   |
| <b>Equity shareholders' funds</b>            | 23   | £ 2,442,861 | £ 1,646,885 |

The financial statements were approved by the board on **27** July 2007 and signed on its behalf by


**T P C Oliver**  
Director

The notes on pages 12 to 33 form part of these financial statements

**CONSOLIDATED CASH FLOW STATEMENT**  
**for the year ended 31 December 2006**

|  |      |           | 2006             |             | 2005             |
|--|------|-----------|------------------|-------------|------------------|
|  | Note | £         | £                | £           | £                |
| <b>Net cash inflow / (outflow) from operating activities</b> | 28   |           | (657,344)        |             | (1,726,424)      |
| Interest received  |      | 637,368   |                  | 616,891     |                  |
| Finance lease interest paid                                  |      | -         |                  | -           |                  |
| Bank interest paid   |      | (2,947)   |                  | (6,596)     |                  |
| Other interest paid  |      | (29,240)  |                  | (26,638)    |                  |
|  |      |           | 605,181          |             | 583,657          |
| <b>Taxation</b>  |      |           |                  |             |                  |
| Recovered  |      | 144       |                  | 58,496      |                  |
| Paid   |      | (149,169) |                  | -           |                  |
|  |      |           | (149,025)        |             | 58,496           |
| <b>Capital expenditure and financial investment</b>          |      |           |                  |             |                  |
| Purchase of tangible fixed assets                            |      | -         |                  | (13,735)    |                  |
|  |      |           |                  |             | (13,735)         |
| <b>Acquisitions and disposals</b>                            |      |           |                  |             |                  |
| (Purchase) / disposal of investments                         |      | (965,397) |                  | 6,043,050   |                  |
| (Purchase) / disposal of subsidiaries                        |      | (334,706) |                  | (3,722,255) |                  |
| Cash acquired with subsidiary                                |      | 686,324   |                  | -           |                  |
|  |      |           | (613,779)        |             | 2,320,795        |
|  |      |           |                  |             |                  |
| <b>Increase / (decrease) in cash</b>                         |      |           | <b>(814,967)</b> |             | <b>1,222,789</b> |

The notes on pages 12 to 33 form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

**1 BASIS OF PREPARATION**

The financial statements of Hampden Insurance Group Limited's subsidiary companies have been prepared on a run-off basis which the directors believe to be appropriate given the group's circumstances

In the event of any significant adverse adjustments becoming necessary, the future of the subsidiary companies, in the absence of other funding, would be uncertain

For details of subsidiary company (note 16) fundamental uncertainties, please see individual financial statements, which can be obtained from the address shown on page 1

**2 ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements

**Basis of accounting**

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The financial statements have also been prepared in compliance with the revised Statement of Recommended Practice issued by the Association of British Insurers

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings as at 31 December except for Hampden Insurance NV and its subsidiary company Sampo Real Estate Limited, the latter of which was dissolved during the year (see note 16). The results of subsidiaries acquired or disposed of during the year are included from, or up to, the date of acquisition or disposal.

During 2005 the Group was re-organised and in accordance with the conditions of FRS 6 'Acquisitions and Mergers' this re-organisation was accounted for using 'Merger Accounting'. Such treatment provides that no additional goodwill is created on re-organisation. Further, the Group is accounted for as if the new organisation had been in place throughout the year, and prior year figures re-stated to reflect the new organisational structure.

**Goodwill and amortisation**

The assets and liabilities of companies and business acquired by the group are included in the accounts at their fair value to the group. The differences between the consideration paid and the fair values of net assets acquired represents goodwill. Amortisation of goodwill is calculated so as to write off the cost of an asset less its residual value over the useful economic life of that asset as follows:

Positive goodwill      20%

Negative goodwill      20%

The directors regularly carry out impairment reviews of goodwill

**Turnover**

Turnover represents the aggregate amount (excluding Value Added Tax) of brokerage and fees receivable for financial and management services and rent receivable

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

**2 ACCOUNTING POLICIES (continued)**

**Premiums**

All premiums included in the technical account comprise amounts due during the financial year in respect of contracts that commenced in earlier years

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

**Unearned premiums**

For business accounted for on an annual basis, the proportion of the premiums written in a year relating to the period from the end of the financial year to the subsequent date of expiry is carried forward as a provision for unearned premiums. The provision is calculated on the 365ths method

**Claims**

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

**Outstanding claims**

The provision for outstanding claims is based on information available at the balance sheet date. Significant delays are experienced in the notification and settlement of certain claims, and accordingly the ultimate cost of such claims cannot be known with certainty at the balance date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. The provision for outstanding claims also includes an amount for claims that may have been incurred but not yet reported. This amount is calculated using statistical projections and by reference to a case by case review of notified losses

Where appropriate, subsidiary companies have their provision discounted to reflect investment income anticipated in the period until actual payment of claims

**Underwriting debtors and creditors**

BVF (Underwriting Management) Limited (BVF), a subsidiary company, acts as an underwriting agent and manager for a group of international insurance companies who accepted business in the name of BVF Excess Loss Pool. BVF is not liable as principal for premiums due to pool members or claims due to cedants. BVF has not therefore included in its balance sheet cash, debtors and creditors arising from insurance transactions with the exception of the amounts owed by or to pool members

**Investment income**

Investment income comprises interest, rents and dividends receivable, together with realised investment gains. An allocation of investment income is made from the non-technical account to the technical account based on the relationship between investments supporting the insurance provisions and those supporting shareholders funds

**Investments**

Investments are shown in the balance sheet at current value. Property is valued at market value. Unrealised gains and losses are taken into the profit and loss account

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

**2 ACCOUNTING POLICIES (continued)**

**Pension costs**

The group makes contributions to several defined contribution pension schemes. Contributions are charged to the profit and loss account in the period in which they are due.

**Foreign currencies**

The results and balance sheets of overseas subsidiaries have been translated at year end exchange rates. The resulting exchange differences are dealt with through reserves.

Foreign investments are translated into sterling at the exchange rate at the date at which the investments have been financed by borrowings denominated in the same foreign currency, in which case that part of the investments are translated at the year end rate. Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities held at the year end are translated at year end exchange rates. The resulting exchange differences are dealt with in the profit and loss account.

**Deferred Taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessment in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognized only when it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured on a non discounted basis at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted by the balance sheet date.

**Financial Instruments**

Financial instruments are classified and accounted for, according to the substance of the contractual agreement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distribution relating to equity instruments are debited direct to equity.



**NOTES TO THE FINANCIAL STATEMENTS**  
31 December 2006

**2 ACCOUNTING POLICIES (continued)**

**Tangible fixed assets and depreciation**

Depreciation is provided evenly on the cost of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Their principal annual rates are:

|                                  |            |
|----------------------------------|------------|
| Computer equipment               | 33%        |
| Motor vehicles                   | 25%        |
| Fixtures, fittings and equipment | 15% to 25% |

**Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

|   | 2006<br>£       | 2005<br>£         |
|---|-----------------|-------------------|
| <b>3 EARNED PREMIUMS NET OF REINSURANCE</b> |                 |                   |
| <b>Gross premiums</b>                       |                 |                   |
| Premiums receivable                         | 28,816          | (147,378)         |
| Unearned premiums carried forward           | -               | -                 |
| Unearned premiums brought forward           | -               | -                 |
| Currency translation difference             | -               | -                 |
| Gross earned premium                        | <u>28,816</u>   | <u>(147,378)</u>  |
| <b>Reinsurance premiums</b>                 |                 |                   |
| Outwards reinsurance premiums               | (26,054)        | 51,619            |
| Unearned premiums carried forward           | -               | -                 |
| Unearned premiums brought forward           | -               | -                 |
| Currency translation difference             | -               | -                 |
| Reinsurers' share                           | <u>(26,054)</u> | <u>51,619</u>     |
| <b>Net premiums</b>                         |                 |                   |
| Premiums receivable                         | 2,762           | (95,759)          |
| Unearned premiums carried forward           | -               | -                 |
| Unearned premiums brought forward           | -               | -                 |
| Currency translation difference             | -               | -                 |
| <b>Net earned premiums</b>                  | <b>£ 2,762</b>  | <b>£ (95,759)</b> |

NOTES TO THE FINANCIAL STATEMENTS  
31 December 2006

|   |          | 2006           | 2005                 |
|---|----------|----------------|----------------------|
|   |          | £              | £                    |
| <b>4 CLAIMS INCURRED NET OF REINSURANCE</b> |          |                |                      |
| <b>Gross claims</b>                         |          |                |                      |
| Claims paid                                 |          | 2,520,768      | 2,347,511            |
| Outstanding claims carried forward          |          | 66,293,667     | 71,622,490           |
| Outstanding claims brought forward          |          | (71,622,490)   | (68,400,959)         |
| Currency translation difference             |          | 3,311,514      | (886,377)            |
| <b>Gross incurred claims</b>                |          | <b>503,459</b> | <b>4,682,665</b>     |
| <b>Reinsurers' share</b>                    |          |                |                      |
| Claims paid                                 |          | 2,396,452      | 1,898,530            |
| Outstanding claims carried forward          |          | 61,704,963     | 66,709,949           |
| Outstanding claims brought forward          |          | (66,709,949)   | (60,945,038)         |
| Currency translation difference             |          | 3,085,005      | (712,758)            |
| <b>Reinsurers' share</b>                    |          | <b>476,471</b> | <b>6,950,683</b>     |
| <b>Net claims</b>                           |          |                |                      |
| Claims paid                                 |          | 124,316        | 448,981              |
| Outstanding claims carried forward          |          | 4,588,704      | 4,912,541            |
| Outstanding claims brought forward          |          | (4,912,541)    | (7,455,921)          |
| Currency translation difference             |          | 226,509        | (173,619)            |
| <b>Claims incurred</b>                      | <b>£</b> | <b>26,988</b>  | <b>£ (2,268,018)</b> |

**5 TECHNICAL PROVISIONS**

**Premiums**

Unearned premium reserve - gross  
Reinsurers' share

**Net unearned premium reserve**

-  
-  
£ - £ -

**Claims - gross**

Notified outstanding claims  
Claims handling costs  
Provision for claims incurred but not reported

56,787,667 60,415,490  
1,648,000 1,817,000  
7,858,000 9,390,000  
66,293,667 71,622,490



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

**5 TECHNICAL PROVISIONS (continued)**

|  | 2006<br>£              | 2005<br>£              |
|--|------------------------|------------------------|
| <b>Claims - reinsurers' share</b>              |                        |                        |
| Notified outstanding claims                    | 53,257,963             | 56,717,949             |
| Reinsurers' share of claims handling costs     | 1,391,000              | 1,535,000              |
| Provision for claims incurred but not reported | <u>7,056,000</u>       | <u>8,457,000</u>       |
|  | <u>61,704,963</u>      | <u>66,709,949</u>      |
| <br><b>Net claims reserve</b>                  | <br>£ <u>4,588,704</u> | <br>£ <u>4,912,541</u> |

**6 SEGMENTAL ANALYSIS**

**Gross premiums written**

|                                |                 |                    |
|--------------------------------|-----------------|--------------------|
| Property                       | -               | -                  |
| Casualty                       | -               | -                  |
| Marine, Aviation and Transport | -               | -                  |
| Reinsurance accepted           | <u>28,816</u>   | <u>(147,378)</u>   |
|                                | £ <u>28,816</u> | £ <u>(147,378)</u> |

**Geographic analysis**

|                    |                 |                    |
|--------------------|-----------------|--------------------|
| United Kingdom     | -               | -                  |
| European community | -               | -                  |
| Rest of the world  | <u>28,816</u>   | <u>(147,378)</u>   |
|                    | £ <u>28,816</u> | £ <u>(147,378)</u> |

**Gross premiums earned**

|                                |                 |                    |
|--------------------------------|-----------------|--------------------|
| Property                       | -               | -                  |
| Casualty                       | -               | -                  |
| Marine, Aviation and Transport | -               | -                  |
| Reinsurance accepted           | <u>28,816</u>   | <u>(147,378)</u>   |
|                                | £ <u>28,816</u> | £ <u>(147,378)</u> |

**Gross claims incurred**

|                                |                  |                    |
|--------------------------------|------------------|--------------------|
| Property                       | 1,379            | -                  |
| Casualty                       | (1,002,131)      | 7,755,196          |
| Marine, Aviation and Transport | (3,677)          | 25,838             |
| Reinsurance accepted           | <u>1,507,886</u> | <u>(3,098,369)</u> |
|                                | £ <u>503,457</u> | £ <u>4,682,665</u> |

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

|   | 2006               | 2005                 |
|---|--------------------|----------------------|
|   | £                  | £                    |
| <b>6 SEGMENTAL ANALYSIS (continued)</b> |                    |                      |
| <b>Gross operating expenses</b>         |                    |                      |
| Property                                | -                  | -                    |
| Casualty                                | (3,958)            | 452,166              |
| Marine, Aviation and Transport          | -                  | 7                    |
| Reinsurance accepted                    | <u>68,726</u>      | <u>179,842</u>       |
|   | <b>£ 64,768</b>    | <b>£ 632,015</b>     |
| <b>Gross technical result</b>           |                    |                      |
| Property                                | (1,379)            | -                    |
| Casualty                                | 1,006,089          | (8,207,362)          |
| Marine, Aviation and Transport          | 3,677              | (25,845)             |
| Reinsurance accepted                    | <u>(1,547,796)</u> | <u>2,771,149</u>     |
|   | <b>£ (539,409)</b> | <b>£ (5,462,058)</b> |
| <b>Reinsurance balance</b>              |                    |                      |
| Property                                | 1,187              | 24,014               |
| Casualty                                | (942,403)          | 7,837,887            |
| Marine, Aviation and Transport          | (2,063)            | (1,201)              |
| Reinsurance accepted                    | <u>1,393,694</u>   | <u>(449,483)</u>     |
|   | <b>£ 450,415</b>   | <b>£ 7,411,217</b>   |
| <b>Net technical result</b>             |                    |                      |
| Property                                | (192)              | 24,014               |
| Casualty                                | 63,686             | (369,475)            |
| Marine, Aviation and Transport          | 1,614              | (27,046)             |
| Reinsurance accepted                    | <u>(154,102)</u>   | <u>2,321,666</u>     |
|   | <b>£ (88,994)</b>  | <b>£ 1,949,159</b>   |

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2006

| 7 | TURNOVER AND PRE-TAX PROFIT / (LOSS)   | Turnover    |             | Pre-tax profit / (loss) |             |
|---|--|-------------|-------------|-------------------------|-------------|
|   |  | 2006        | 2005        | 2006                    | 2005        |
|   | Turnover and pre-tax profit / (loss) is attributable to the following activities | £           | £           | £                       | £           |
|   | Insurance broking  | -           | -           | (15,983)                | (77,666)    |
|   | Insurance company technical account  | 265,496     | 2,345,273   | 7,044                   | 2,830,369   |
|   | Financial and management services  | 2,493,015   | 1,903,807   | 3,424,123               | (2,704,659) |
|   |  | £ 2,758,511 | £ 4,249,080 | £ 3,415,184             | £ 48,044    |
|   | Turnover and pre-tax profit / (loss) is derived from the following areas         |             |             |                         |             |
|   | United Kingdom   | 1,495,733   | 3,494,769   | 2,592,505               | (8,500)     |
|   | European Community   | 1,262,778   | 754,311     | 825,399                 | 59,450      |
|   | Rest of the world  | -           | -           | (2,720)                 | (2,906)     |
|   |  | £ 2,758,511 | £ 4,249,080 | £ 3,415,184             | £ 48,044    |

| 8 | INVESTMENT INCOME              | 2006      | 2005      |
|---|--------------------------------|-----------|-----------|
|   |                                | £         | £         |
|   | Income from listed investments | 224,110   | 14,868    |
|   | Bank interest                  | 262,754   | 499,196   |
|   | Other interest                 | 132,043   | 87,277    |
|   |                                | 618,907   | 601,341   |
|   | Realised gains / (losses)      | 45,341    | 382,953   |
|   |                                | 664,248   | 984,294   |
|   | Investment expenses            | -         | (22,568)  |
|   | Unrealised gains / (losses)    | (133,968) | (79,824)  |
|   |                                | £ 530,280 | £ 881,902 |

| 9 | INTEREST RECEIVABLE      |          |         |
|---|--------------------------|----------|---------|
|   |                          |          |         |
|   | Bank interest receivable | 18,491   | 8,173   |
|   |                          | £ 18,491 | £ 8,173 |

**NOTES TO THE FINANCIAL STATEMENTS**  
31 December 2006

| 10 | OPERATING PROFIT / (LOSS)                            |      | 2006      | 2005      |
|----|--|------|-----------|-----------|
|    |  |      | £         | £         |
|    | This is stated after charging / (crediting)          |      |           |           |
|    |  | Note |           |           |
|    | <b>Auditors remuneration for</b>                     |      |           |           |
|    | Audit services - the company                         |      | 14,230    | 10,380    |
|    | Audit services - the group                           |      | 150,361   | 140,209   |
|    | Non audit services - the company                     |      | 2,000     | 1,900     |
|    | Non audit services - the group                       |      | 31,769    | 47,867    |
|    | <b>Amortisation of intangible fixed assets</b>       | 14   | (626,428) | 2,306,256 |
|    | <b>Depreciation of tangible fixed assets</b>         |      |           |           |
|    | Owned  | 15   | 11,954    | 16,092    |
|    | Leased   |      | -         | -         |
|    | <b>(Profit) / loss on foreign exchange borrowing</b> |      | (100,471) | (6,396)   |
|    | <b>Provision for write-off of investment</b>         | 28   | -         | (500,000) |
|    | <b>Staff costs</b>                                   | 11   | 1,622,954 | 1,757,702 |
|    | <b>Operating lease rentals - land and buildings</b>  | 26   | 29,281    | -         |
|    |  |      |           |           |

| 11 | STAFF COSTS   |  |             |             |
|----|---|--|-------------|-------------|
|    | Staff costs, including directors' remuneration (note 12) were                         |  |             |             |
|    | Wages and salaries  |  | 1,341,553   | 1,407,035   |
|    | Social security costs   |  | 61,347      | 63,110      |
|    | Other pension costs   |  | 220,054     | 287,557     |
|    |   |  | £ 1,622,954 | £ 1,757,702 |
|    | The average number of staff employed during the financial year was made up as follows |  | Number      | Number      |
|    | Sales   |  | -           | -           |
|    | Administration  |  | 24          | 14          |
|    | Technical   |  | 5           | 2           |
|    |   |  | 29          | 16          |



**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

| 12 | DIRECTORS' EMOLUMENTS   |   | 2006    |   | 2005    |
|----|---|---|---------|---|---------|
|    |   |   | £       |   | £       |
|    |   |   |         |   |         |
|    |   |   |         |   |         |
|    | Total emoluments  |   | 426,631 |   | 422,489 |
|    | Value of company pension contributions to money purchase schemes  |   | 83,942  |   | 116,403 |
|    |   | £ | 510,573 | £ | 538,892 |
|    | The emoluments of the Chairman and the highest paid director, excluding pension contribution, were      |   |         |   |         |
|    | The Chairman  |   | Nil     |   | Nil     |
|    | The highest paid director   | £ | 265,368 | £ | 150,287 |
|    | Pension contributions of the highest paid director, made to a money purchase scheme on his behalf, were | £ | 69,868  | £ | 102,903 |
|    | Retirement benefits are accruing to the following number of directors under                             |   | Number  |   | Number  |
|    | Money purchase schemes  |   | 2       |   | 2       |

**NOTES TO THE FINANCIAL STATEMENTS**  
31 December 2006

|  |   | 2006      | 2005      |
|--|---|-----------|-----------|
|  |   | £         | £         |
| <b>13 TAXATION ON PROFIT ON ORDINARY ACTIVITIES</b>  |   |           |           |
| (a) Taxation   |   |           |           |
| Current tax  |   |           |           |
| In respect of the year   |   |           |           |
| UK Corporation Tax based on the results of the year at 30% (2005 - 30%)  |   | -         | 9,762     |
| Over/under provision in prior years  |   | 827       | 107       |
| Group relief   |   | -         | -         |
| Overseas tax - current   |   | 141,365   | 23,872    |
| Total current year tax   |   | 142,192   | 33,741    |
| Movement in deferred tax asset (note 19)   |   | -         | -         |
| Tax on profit on ordinary activities   | £ | 142,192   | £ 33,741  |
| (b) Factors affecting current tax charge   |   |           |           |
| The tax assessed for the year differs from the standard rate of corporation tax in the UK of 30% (2005 - 30%), applied to the profit on ordinary activities before taxation. The differences are explained below |   |           |           |
| Profit on ordinary activities before taxation  | £ | 3,415,184 | £ 48,044  |
| Profit on ordinary activities multiplied by the company's rate of corporation tax in the UK of 30% (2005 - 30%)  |   | 1,024,555 | 14,413    |
| Effects of   |   |           |           |
| Expenses disallowable for tax purposes   |   | (835,147) | 935,079   |
| Capital allowances in excess of depreciation   |   | (5,680)   | (9,046)   |
| Utilisation of own tax losses  |   | -         | 201,330   |
| Adjustments in respect of insurance business   |   | -         | (996,518) |
| Unrelieved tax losses  |   | 816       | 872       |
| Other timing differences   |   | 11,911    | -         |
| Group relief - (utilisation) / surrender of losses   |   | (55,090)  | (112,496) |
| Adjustments in respect of prior periods  |   | 827       | 107       |
| Total current tax charge (Note 13(a))  | £ | 142,192   | £ 33,741  |

**(c) Factors affecting future tax charge**

A deferred tax asset has not been recognised in respect of unrelieved tax losses and accelerated capital allowances. The amount that has not been recognised at 31 December 2006 when calculated at the large companies rate of corporation tax in the UK of 30% is £1,387,877 (2005 - £1,306,012). The deferred tax asset would be recoverable to the extent that future taxable profits are generated enabling the tax losses to be relieved.





**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

| 14                         | INTANGIBLE ASSETS  |   |              |           |             |
|----------------------------|--|---|--------------|-----------|-------------|
|                            | Goodwill has arisen as a result of the acquisition of subsidiary undertakings and businesses |   |              |           |             |
|                            |  |   | Subsidiaries |           |             |
|                            |  |   | Negative     | Positive  |             |
|                            |  |   | Goodwill     | Goodwill  | Total       |
| Group                      |  |   | £            | £         | £           |
| Cost                       |  |   |              |           |             |
| At 1 January 2006          |  |   | (3,011,283)  | 1,793,722 | (1,217,561) |
| Foreign exchange movements |  |   | 43,134       | -         | 43,134      |
| Purchased during the year  |  |   | (291,577)    | -         | (291,577)   |
| Disposals                  |  |   | -            | -         | -           |
| At 31 December 2006        |  |   | (3,259,726)  | 1,793,722 | (1,466,004) |
| Amortisation               |  |   |              |           |             |
| At 1 January 2006          |  |   | (2,383,928)  | 1,772,932 | (610,996)   |
| Foreign exchange movements |  |   | 34,511       | -         | 34,511      |
| Disposals                  |  |   | -            | -         | -           |
| Charge for the year        |  |   | (647,218)    | 20,790    | (626,428)   |
| At 31 December 2006        |  |   | (2,996,635)  | 1,793,722 | (1,202,913) |
| Net book value             |  |   |              |           |             |
| At 31 December 2006        |  | £ | (263,091)    | £ -       | £ (263,091) |
| At 31 December 2005        |  | £ | (627,355)    | £ 20,790  | £ (606,565) |

| 15                  | TANGIBLE FIXED ASSETS |               |           |          |          |
|---------------------|-----------------------|---------------|-----------|----------|----------|
|                     |                       | Furniture and | Computer  | Motor    |          |
|                     |                       | Fixtures      | Equipment | Vehicles | Total    |
| (a) The group       |                       | £             | £         | £        | £        |
| Cost                |                       |               |           |          |          |
| At 1 January 2006   |                       | 539,872       | 330,255   | 86,412   | 956,539  |
| Additions           |                       | -             | -         | -        | -        |
| Disposals           |                       | (15,000)      | -         | -        | (15,000) |
| At 31 December 2006 |                       | 524,872       | 330,255   | 86,412   | 941,539  |
| Depreciation        |                       |               |           |          |          |
| At 1 January 2006   |                       | 518,048       | 330,255   | 86,412   | 934,715  |
| Disposals           |                       | (15,000)      | -         | -        | (15,000) |
| Charge for the year |                       | 11,954        | -         | -        | 11,954   |
| At 31 December 2006 |                       | 515,002       | 330,255   | 86,412   | 931,669  |
| Net book value      |                       |               |           |          |          |
| At 31 December 2006 | £                     | 9,870         | £ -       | £ -      | £ 9,870  |
| At 31 December 2005 | £                     | 21,824        | £ -       | £ -      | £ 21,824 |

NOTES TO THE FINANCIAL STATEMENTS  
31 December 2006

| 15                    | TANGIBLE FIXED ASSETS (continued) |   |                           |                   |   |          |
|-----------------------|-----------------------------------|---|---------------------------|-------------------|---|----------|
|                       |                                   |   | Furniture and<br>Fixtures | Motor<br>Vehicles |   | Total    |
|                       | (b) The company                   |   | £                         | £                 |   | £        |
| <b>Cost</b>           |                                   |   |                           |                   |   |          |
|                       | At 1 January 2006                 |   | 286,804                   | 42,500            |   | 329,304  |
|                       | Additions                         |   | -                         | -                 |   | -        |
|                       | Disposals                         |   | -                         | -                 |   | -        |
|                       | At 31 December 2006               |   | 286,804                   | 42,500            |   | 329,304  |
| <b>Depreciation</b>   |                                   |   |                           |                   |   |          |
|                       | At 1 January 2006                 |   | 272,163                   | 42,500            |   | 314,663  |
|                       | Disposals                         |   | -                         | -                 |   | -        |
|                       | Charge for the year               |   | 8,385                     | -                 |   | 8,385    |
|                       | At 31 December 2006               |   | 280,548                   | 42,500            |   | 323,048  |
| <b>Net book value</b> |                                   |   |                           |                   |   |          |
|                       | At 31 December 2006               | £ | 6,256                     | £                 | - | £ 6,256  |
|                       | At 31 December 2005               | £ | 14,641                    | £                 | - | £ 14,641 |

| 16                        | INVESTMENTS                       |                                       |                                |   |   |             |
|---------------------------|-----------------------------------|---------------------------------------|--------------------------------|---|---|-------------|
|                           |                                   | Listed and<br>unlisted<br>investments | Loans<br>to group<br>companies | Deposits<br>with credit<br>institutions |   | Total       |
|                           | (a) The group                     | £                                     | £                              | £                                       |   | £           |
| <b>Cost and valuation</b> |                                   |                                       |                                |   |   |             |
|                           | At 1 January 2006                 | 5,543,793                             | 1,000,000                      | 508,381                                 |   | 7,052,174   |
|                           | Revaluations                      | (232,639)                             | -                              | (9,614)                                 |   | (242,253)   |
|                           | Additions                         | 626,288                               | -                              | 1,211,518                               |   | 1,837,806   |
|                           | Disposals                         | (860,746)                             | -                              | (11,663)                                |   | (872,409)   |
|                           | At 31 December 2006               | 5,076,696                             | 1,000,000                      | 1,698,622                               |   | 7,775,318   |
| <b>Provisions</b>         |                                   |                                       |                                |   |   |             |
|                           | At 1 January and 31 December 2006 | -                                     | -                              | -                                       |   | -           |
| <b>Net book value</b>     |                                   |                                       |                                |   |   |             |
|                           | At 31 December 2006               | £ 5,076,696                           | £ 1,000,000                    | £ 1,698,622                             | £ | £ 7,775,318 |
|                           | At 31 December 2005               | £ 5,543,793                           | £ 1,000,000                    | £ 508,381                               | £ | £ 7,052,174 |

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

|           |  |  |  |             |             |
|-----------|--|--|--|-------------|-------------|
| <b>16</b> | <b>INVESTMENTS (continued)</b>   |  |  |             |             |
|           |  |  |  |             |             |
|           | <b>(b) The company</b>   |  |  | <b>2006</b> | <b>2005</b> |
|           |  |  |  | <b>£</b>    | <b>£</b>    |
|           | <b>Subsidiary undertakings</b>   |  |  |             |             |
|           | <b>Cost</b>  |  |  |             |             |
|           | At 1 January 2006  |  |  | 90,404      | 101,119     |
|           | Transfers in   |  |  | -           | (101,119)   |
|           | Transfers out  |  |  | -           | 90,404      |
|           | At 31 December 2006  |  |  | £ 90,404    | £ 90,404    |
|           | During 2005 a major reorganisation of the group was carried out which resulted in many companies being transferred to and from Hampden Plc. These subsidiaries were transferred at the lower of cost or written down value.                          |  |  |             |             |
|           |  |  |  |             |             |
|           | <b>(c) Listed investments</b>  |  |  |             |             |
|           | <b>On a recognised stock exchange</b>  |  |  |             |             |
|           | At cost less amounts written off   |  |  | £ 4,891,867 | £ 4,464,602 |
|           | At market value  |  |  | £ 5,076,630 | £ 4,792,818 |
|           | No provision has been made for any taxation which may arise if the investments were to be realised at the values stated. In the opinion of the directors the net realisable value of the unlisted investments is not less than their net book value. |  |  |             |             |
|           |  |  |  |             |             |

Investments in group undertakings are stated at cost less provisions for permanent diminution in value. The directors recognise that a number of these undertakings have experienced temporary trading difficulties. They are confident that once these difficulties have been resolved, in the aggregate, they will be worth not less than their net book value.

During 2001 the company purchased the entire issued share capital of Sampo Industrial Insurance N V, a Dutch insurance company. The company was subsequently renamed Hampden Insurance NV. In view of the magnitude of the assets and liabilities, and after taking professional advice, the directors have, on balance, decided not to consolidate Hampden Insurance NV financial statements into the group on the grounds that to do so would present a totally misleading picture of the state of affairs of the group.

The maximum liability of the rest of the group to Hampden Insurance NV is £60, the value of the investment in that company, which has been shown under 'Listed and unlisted investments'. A summarised balance sheet of Hampden Insurance NV is shown below and a full set of the financial statements are available on request from Hampden Holdings Limited registered office.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

**16 INVESTMENTS (continued)**

|  |                                      | 2006     |          | 2005     |          |
|--|--------------------------------------|----------|----------|----------|----------|
|  |                                      | £ 000's  | £ 000's  | £ 000's  | £ 000's  |
| <b>Fixed assets</b>                                    |                                      |          |          |          |          |
|  | Tangible assets                      |          | 1,143    |          | 932      |
|  | Investments                          |          | 12,878   |          | 15,836   |
|  | Money market deposits                |          | 18,738   |          | 19,013   |
|  |                                      |          | 32,759   |          | 35,781   |
| <b>Current assets</b>                                  |                                      |          |          |          |          |
|  | Debtors                              | 2,092    |          | 3,512    |          |
|  | Cash at banks and in hand            | 448      |          | 941      |          |
|  |                                      | 2,540    |          | 4,453    |          |
| <b>Creditors</b>                                       |                                      |          |          |          |          |
|  | Amounts falling due within one year  | 15,702   |          | 16,973   |          |
|  |                                      |          | (13,162) |          | (12,520) |
| <b>Total assets less current liabilities</b>           |                                      |          | 19,597   |          | 23,261   |
| <b>Provisions for liabilities and deferred charges</b> |                                      |          |          |          |          |
|  | Future run-off costs                 | 652      |          | 647      |          |
|  | Outstanding claims                   | 32,684   |          | 36,858   |          |
|  |                                      |          | 33,336   |          | 37,505   |
| <b>Capital and reserves</b>                            |                                      |          |          |          |          |
|  | Called up share capital              | 32,106   |          | 32,739   |          |
|  | Share premium account                | 4,585    |          | 4,676    |          |
|  | Revaluation reserve                  | 511      |          | 298      |          |
|  | Profit and loss account at 1 January | (51,057) |          | (54,547) |          |
|  | Profit/(loss) for the year           | 116      |          | 2,590    |          |
|  |                                      |          | (13,739) |          | (14,244) |
|  |                                      |          | 19,597   |          | 23,261   |

Sampo Real Estate Limited, a subsidiary of Hampden Insurance NV, was dissolved during the year

**17 DEBTORS AND CREDITORS**

Where insurance company debtors and creditors are fully reinsured, they have been shown in these accounts net of such reinsurance

**NOTES TO THE FINANCIAL STATEMENTS**  
31 December 2006

| 18 | DEBTORS                             |           |           |           |           |           |           |
|----|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|    |                                     |           |           | Group     |           |           | Company   |
|    |                                     | 2006      |           | 2005      |           | 2006      | 2005      |
|    | Amounts falling due within one year | £         |           | £         |           | £         | £         |
|    | Trade debtors                       | 3,427,662 |           | 2,732,660 |           | 382,372   | -         |
|    | Amounts owed by group               | 5,174,804 |           | 4,811,738 |           | 7,317,859 | 8,426,584 |
|    | Related undertakings                | -         |           | -         |           | -         | -         |
|    | Corporation tax                     | 1,903     |           | 3,670     |           | -         | -         |
|    | Deferred taxation (note 19)         | 467       |           | 467       |           | -         | -         |
|    | Prepayments and accrued             | 311,484   |           | 243,830   |           | 16,052    | 11,950    |
|    | Other debtors                       | 162,420   |           | 270,664   |           | 36,137    | 36,470    |
|    |                                     | £         | 9,078,740 | £         | 8,063,029 | £         | 7,752,420 |
|    |                                     |           |           |           |           | £         | 8,475,004 |

| 19 | DEFERRED TAX  |       |       |       |       |   |   |
|----|---|-------|-------|-------|-------|---|---|
|    | Balance brought forward   | (467) |       | (467) |       | - | - |
|    | The movement in the deferred taxation account during the year was   |       |       |       |       |   |   |
|    | Profit and Loss Account movement arising during the year  | -     |       | -     |       | - | - |
|    | Balance carried forward   | (467) |       | (467) |       | - | - |
|    | The balance of the deferred taxation account consists of the tax effect of timing differences in respect of |       |       |       |       |   |   |
|    | Unrelieved tax losses   | -     |       | -     |       | - | - |
|    | Accelerated capital allowances  | (467) |       | (467) |       | - | - |
|    |   | £     | (467) | £     | (467) | £ | - |
|    |   |       |       |       |       | £ | - |

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

|  |                     | Group               |                    | Company            |  |
|--|---------------------|---------------------|--------------------|--------------------|--|
|  | 2006                | 2005                | 2006               | 2005               |  |
|  | £                   | £                   | £                  | £                  |  |
| <b>20 CREDITORS</b>  |                     |                     |                    |                    |  |
| <b>Amounts falling due within one year</b>   |                     |                     |                    |                    |  |
| Trade creditors  | 5,511,263           | 5,731,487           | 107,461            | 128,452            |  |
| Amounts owed to group undertakings   | 3,490,758           | 3,372,750           | 4,798,893          | 6,627,013          |  |
| Related undertakings   | 258,372             | 313,285             | 40,763             | 10,424             |  |
| Accruals and deferred income   | 495,964             | 550,410             | 97,994             | 94,994             |  |
| Corporation tax  | 124,617             | 131,244             | -                  | -                  |  |
| Other creditors including taxation and social security   | 1,066,684           | 910,661             | 860,089            | 840,109            |  |
|  | <b>£ 10,947,658</b> | <b>£ 11,009,837</b> | <b>£ 5,905,200</b> | <b>£ 7,700,992</b> |  |
| During 1999, loans totaling £1,166,608 were made to Hampden Plc by Kingaby Simmons Limited, another group company. These loans form part of Kingaby Simmons Limited's insurance balances and are included in Amounts due to group undertakings. These amounts are all due within one year. |                     |                     |                    |                    |  |

|  |  |             |             |  |  |
|--|--|-------------|-------------|--|--|
| <b>21 SHARE CAPITAL</b>                        |  |             |             |  |  |
| Authorised, allotted, called up and fully paid |  |             |             |  |  |
| 6,210,381 ordinary shares of 40p each          |  | £ 2,484,152 | £ 2,484,152 |  |  |
|  |  |             |             |  |  |
|  |  |             |             |  |  |
|  |  |             |             |  |  |

|   | Group              |                    | Company           |                    |
|---|--------------------|--------------------|-------------------|--------------------|
|   | 2006               | 2005               | 2006              | 2005               |
|   | £                  | £                  | £                 | £                  |
| <b>22 RESERVES</b>                        |                    |                    |                   |                    |
| <b>Profit &amp; loss account</b>          |                    |                    |                   |                    |
| At 1 January                              | 3,025,458          | 3,110,015          | (837,267)         | (1,668,974)        |
| Exchange movements                        | (44,439)           | (98,828)           | -                 | -                  |
| Acquisition / (dissolution) of subsidiary | (1,587,129)        | (32)               | -                 | -                  |
| Retained profit for the financial year    | 3,272,992          | 14,303             | 795,976           | 831,707            |
| <b>At 31 December</b>                     | <b>£ 4,666,882</b> | <b>£ 3,025,458</b> | <b>£ (41,291)</b> | <b>£ (837,267)</b> |

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

| 23 | RECONCILIATION OF MOVEMENTS<br>IN EQUITY SHAREHOLDERS' FUNDS       |             | Group       |             | Company     |
|----|--|-------------|-------------|-------------|-------------|
|    |  | 2006        | 2005        | 2006        | 2005        |
|    |  | £           | £           | £           | £           |
|    | Opening shareholders' funds  | 5,509,610   | 5,594,167   | 1,646,885   | 815,178     |
|    | Exchange differences on retranslation of<br>shareholders' funds    | (44,439)    | (98,828)    | -           | -           |
|    | Profit & Loss account on acquisition /<br>(disposal) of subsidiary | (1,587,129) | (32)        | -           | -           |
|    | Retained profit for the financial year                             | 3,272,992   | 14,303      | 795,976     | 831,707     |
|    | Closing shareholders' funds  | £ 7,151,034 | £ 5,509,610 | £ 2,442,861 | £ 1,646,885 |

**24 PENSION COMMITMENTS**

The group makes contributions to several defined contribution pension schemes. The assets of these schemes are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the group to the funds and amounted to £220,054 (2005 - £287,557). Contributions totalling £101,070 (2005 - £Nil) were outstanding at the year end and are included in other creditors.

**25 PROFIT AND LOSS ACCOUNT**

As permitted by section 230 of the Companies Act 1985, the group accounts do not include a separate profit and loss account for Hampden Plc. The amount of pre-tax profit attributable to Hampden Plc dealt with in the group accounts is £795,976 (2005 - £831,708).

|    |   | Group     |           | Company   |
|----|---|-----------|-----------|-----------|
|    | 2006  | 2005      | 2006      | 2005      |
|    | £   | £         | £         | £         |
| 26 | OTHER FINANCIAL COMMITMENTS   |           |           |           |
|    | Operating lease commitments   |           |           |           |
|    | At the end of the year the group and company<br>had annual commitments under non-cancellable<br>operating leases as follows |           |           |           |
|    | Land and buildings, lease expiring:   | -         | -         | -         |
|    | Within one year   | -         | 54,829    | -         |
|    | One to five years   | -         | -         | -         |
|    | Beyond five years   | 589,115   | 625,694   | 539,444   |
|    | £ 589,115   | £ 680,523 | £ 539,444 | £ 539,444 |

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006****27 FRS 8 – RELATED PARTY TRANSACTIONS**

As the company is a wholly owned subsidiary of Hampden Holdings Limited it has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed separately transactions or balances with entities which form part of the Hampden Holdings Group, where more than 90% of the voting rights of the entity are controlled within the group

Mr T P C Oliver and Mr C G Camroux-Oliver are directors of this company and Hampden Capital Plc, whose subsidiaries include Hampden Agencies Limited, Hampden Tax Consultants Limited and Hampden Private Capital Limited. During the year Hampden Plc charged Hampden Agencies Limited £986,442 for group loss relief and recharged expenses. At 31 December 2006 Hampden Agencies Limited owed Hampden Plc £235,702 (2005 - £84). Hampden Agencies Limited charged Hampden Plc £11,157 (2005 - £18,843) for recharged expenses. At the year end, Hampden Plc owed Hampden Agencies £4,068 (2005 - £172).

Hampden Plc charged Hampden Tax Consultants Limited and Hampden Private Capital Limited £8,594 (2005 - £9,450) and £2,293 (2005 - £2,625) respectively during the year for expenses recharged.

Included within the cash at bank and in hand is an amount of £320,000 (2005 - £500,000) on which subsidiary companies have entered into a counter indemnity agreement with its bankers in favour of the Society of Lloyd's on behalf of Hampden Agencies Limited, another group company. The fee received during the year from Hampden Agencies Limited for the provision of this counter indemnity was £21,250 (2005 - £48,542) of which £Nil (2005 - £Nil) was outstanding at the year end.

Included in Other Income is £1,201,568 (2005 - £1,030,645) relating to management charges invoiced to Hampden Insurance NV, a group company that has not been consolidated (see note 16). At the year end Hampden Insurance NV owed Hampden Insurance Group Limited £89,068 (2005 - £80,957) which is included in amounts owed to related undertakings.

During the year, Hampden Plc charged Hampden Insurance NV £168,301 (2005 - £51,918) for rent fees, run-off management services and expense recharges. At 31 December 2006 Hampden Insurance NV owed Hampden Plc £32,312 (2005 - Hampden Plc owed Hampden Insurance NV £10,424).

Included within Hampden Insurance NV (see note 16) is an amount of £35,575 (2005 - £30,919) which relates to a mortgage loan issued to a director of that company.

Included within Other Prepayments is £5,576 which relates to prepaid school fees paid by Hampden Insurance Group BV on behalf of one of the directors. The total amount charged to the profit and loss account for the year was £10,932.

On 17<sup>th</sup> January 2006, the directors of Lakewood Insurance Company Limited (a subsidiary company) approved the write-off of a mortgage loan of £500,000 provided to Hampden Insurance Holdings Limited, a fellow group company. The directors provided in full for the write-down of the investment in the accounts of the year ended 31 December 2005.

Included within other debtors is an amount of £Nil (2005 - £60,000) owed to Hampden Group Management Limited from the Hampden Shoot, a partnership owned 50% by that company and 50% by a director of the company Mr T P C Oliver. During the year, Hampden Plc charged The Hampden Shoot £1,502 (2005 - £Nil) for recharged expenses.

**Transactions with directors**

Mr T P C Oliver director's current account (included in other debtors) was overdrawn during 2005 with a year end balance of £Nil (2005 - £Nil). The maximum outstanding balance during the year was £Nil (2005 - £22,192).



**NOTES TO THE FINANCIAL STATEMENTS**  
31 December 2006

**27 FRS 8 – RELATED PARTY TRANSACTIONS (continued)**

A loan of £1,000,000 (2005 - £1,000,000) was made by Community Reinsurance Corporation Limited, a group company, to Hampden Holdings Ltd (the ultimate parent company) on 4 June 2004. The loan is secured against investments held in Hampden Holdings Ltd. Interest is payable on a quarterly basis from this date at a rate of 2.5% per annum above the base lending rate of National Westminster Bank plc. Interest paid during 2006 was £72,500 (2005 - £78,622) and accrued interest unpaid as at the year-end was £Nil (2005 - £11,698).

|   |   | 2006        | 2005          |
|---|---|-------------|---------------|
|   |   | £           | £             |
| <b>28 RECONCILIATION OF OPERATING PROFIT / (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b> |   |             |               |
| Operating profit / (loss)   |   | 1,311,471   | (808,797)     |
| Amortisation  |   | (626,428)   | 2,306,256     |
| Depreciation  |   | 11,954      | 16,092        |
| Unrealised (profit) / loss on investments   |   | 36,557      |               |
| Exchange rate adjustments   |   | 6,124       | 90,785        |
| Write-off of group balances   |   | -           | 500,000       |
| Decrease in technical provisions  |   | (268,587)   | (2,543,380)   |
| Increase in debtors   |   | (1,131,394) | (352,149)     |
| Increase / (decrease) in creditors  |   | 2,959       | (935,231)     |
| Net cash inflow / (outflow) from operating activities   | £ | (657,344)   | £ (1,726,424) |

|                                       |   |           |             |
|---------------------------------------|---|-----------|-------------|
| <b>29 ANALYSIS OF CHANGES IN CASH</b> |   |           |             |
| Balance at 1 January                  |   | 6,901,526 | 5,678,737   |
| Acquired on purchase of subsidiary    |   | -         | -           |
| Net cash inflow / (outflow)           |   | (814,967) | 1,222,789   |
| Balance at 31 December                | £ | 6,086,559 | £ 6,901,526 |

|   |   | At 1      |             | At 31       |
|---|---|-----------|-------------|-------------|
|   |   | January   | Cash        | December    |
|   |   | 2006      | flow        | 2006        |
|   |   | £         | £           | £           |
| <b>30 ANALYSIS OF CHANGES IN NET DEBT</b> |   |           |             |             |
| Cash at bank and in hand                  |   | 6,901,526 | (814,967)   | 6,086,559   |
| Overdrafts                                |   | -         | -           | -           |
|   |   | 6,901,526 | (814,967)   | 6,086,559   |
| Finance leases                            |   | -         | -           | -           |
|   | £ | 6,901,526 | £ (814,967) | £ 6,086,559 |

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

| 31 | SUBSIDIARY UNDERTAKINGS |  |   |                     |             |
|----|-------------------------|--|---|---------------------|-------------|
|    |                         |  |   | Net assets acquired |             |
|    |                         |  |   | 2006                | 2005        |
|    |                         |  |   | £                   | £           |
|    | Intangible assets       |  |   | -                   | -           |
|    | Tangible assets         |  |   | -                   | -           |
|    | Debtors and prepayments |  |   | 6,041               | -           |
|    | Investments             |  |   | 686,324             | -           |
|    | Cash / deposits         |  |   | -                   | -           |
|    | Creditors and accruals  |  |   | (66,082)            | -           |
|    |                         |  |   | 626,283             | -           |
|    | Minority interests      |  |   | -                   | -           |
|    | Profit and loss account |  |   | -                   | -           |
|    | Positive goodwill       |  |   | -                   | 3,722,255   |
|    | Negative goodwill       |  |   | (291,577)           | -           |
|    |                         |  |   |                     |             |
|    | Cash paid               |  | £ | 334,706             | £ 3,722,255 |

The following companies are the only subsidiary undertakings. In all cases the company holds 100% of equity share capital

| Name   | Country of Incorporation | Principal Activity         |
|--|--------------------------|----------------------------|
| Hampden Insurance Group Limited  | England & Wales          | Holding company            |
| AA Mutual International Insurance Company Limited                        | England & Wales          | Insurance company          |
| Community Reinsurance Corporation Limited                                | England & Wales          | Reinsurance company        |
| The Fenton Insurance Company Limited                                     | England & Wales          | Insurance company          |
| Lakewood Insurance Company Limited                                       | England & Wales          | Insurance company          |
| Hampden Insurance Group BV   | The Netherlands          | Administration Services    |
| NV Schaderverzekeringsmaatschappij Maas Lloyd                            | The Netherlands          | Insurance company          |
| NV Algemene Verzekering Maatschappij "De Zee"                            | The Netherlands          | Insurance company          |
| Hampden Insurance N V  | The Netherlands          | Insurance company          |
| Hampden Group Management Limited   | England & Wales          | Holding company            |
| BVF (Underwriting Management) Limited                                    | England & Wales          | Underwriting managers      |
| Hampden Insurance Management Limited                                     | England & Wales          | Investment company         |
| Hampden Reinsurance Administration Limited                               | England & Wales          | Insurance related services |
| Hampden Underwriting Services Limited                                    | England & Wales          | Accounting services        |
| Kingaby Simmons Limited  | England & Wales          | Insurance brokers          |
| Manson Byng (Holdings) Limited   | England & Wales          | Holding company            |
| Manson Byng (Reinsurance Brokers) Limited                                | England & Wales          | Insurance brokers          |
| Marlow Underwriting Agency Limited                                       | England & Wales          | Underwriting managers      |
| Marlow Underwriting S A  | Switzerland              | Underwriting managers      |
| Odyssey Underwriting Limited<br>(formerly Sentinel Underwriting Limited) | England & Wales          | Underwriting managers      |
| Valais Reinsurance Consultants Limited                                   | England & Wales          | Underwriting managers      |
| Weedon Underwriting Agency Limited                                       | England & Wales          | Underwriting managers      |

During the year Hampden Insurance Management Services Limited and Sampo Real Estate Limited were dissolved, and since the year end Weedon Underwriting Agency Limited has been dissolved

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2006**

**32 ULTIMATE PARENT AND CONTROLLING COMPANY**

The ultimate parent and controlling company is Hampden Holdings Limited, a company registered in England and Wales

Copies of the consolidated financial statements can be obtained from the registered office, the address of which is as follows

Hampden House  
Great Hampden  
Great Missenden  
Buckinghamshire  
HP16 9RD