

**KX Reinsurance
Company Limited**
(formerly Continental Management Services Limited)

Report & Accounts
2007

CONTENTS	Page
Report of the Directors	2
Corporate Information	5
Independent Auditors' Report	6
Profit and Loss Account: Technical Account – General Business	7
Profit and Loss Account: Non-Technical Account	8
Balance Sheet	9
Notes to the Accounts	10

REPORT OF THE DIRECTORS

The Directors present their report together with the financial statements for the year ended 31 December 2007.

Principal activity

The principal activity of KX Reinsurance Company Limited is the run-off of reinsurance contracts written prior to 1993, when the Company ceased underwriting new business. The Company is regulated by the FSA.

Business review

The Company recorded a profit for the year of \$9.6 million (2006: \$15.6 million restated) the full results for the year are set out on pages 7 and 8. As a consequence the Company's surplus has increased to \$128.3 million at 31 December 2007.

On the 4 May 2007 the Company was acquired by KX Re Holdings Limited, a wholly owned subsidiary of Tawa plc. The ultimate parent company and ultimate controlling party is Financière Pinault S.C.A a Société en commandite par actions incorporated in France. On 8 May 2007 the Company changed its name from Continental Management Services Limited to KX Reinsurance Company Limited.

Partly paid share capital of £0.50 on 1,914,184 ordinary shares was fully paid during the year, resulting in a \$1.9 million increase in the shareholders funds.

No dividend was declared or paid in the year (2006: \$ nil). The balance from the profit and loss account is to be transferred to reserves.

The technical provisions as detailed in note 18 are a measurement of the Company's future estimated liabilities, including incurred but not reported claims. The Directors seek to reduce these provisions by orderly settlement, commutations and other business mitigation strategies. In the current year the Company achieved a reduction in technical provisions of 16% (2006: 27%).

The efficient collection of amounts due from reinsurers is regarded by the Directors as an important part of the overall management of the Company. In the year the Company achieved a reduction of 15% (2006: 43%) on amounts due from reinsurers before deduction of any allowance for bad debts.

Prior to KX Re's sale to Tawa Group the Company commuted the vast majority of its reinsurances with CNA Financial Corporation, its former ultimate parent. The Company received \$69.7 million.

During the year net investment income of \$11.7 million was earned (2006: loss \$0.8 million). The investment return has increased as a result of the additional funds arising from the commutation mentioned above. In addition the Company holds 45% of its investments in fixed interest government securities which have produced unrealised investment gains of \$3.8 million. A further 50% of the portfolio was held in cash and cash equivalents which shielded the Company from adverse development due to the current credit crunch crisis. The Directors consider that investment yields measured in the original currencies of its investments are satisfactory.

Directors and Directors' interests

The Directors of the Company are listed on page 5 and unless otherwise indicated, all served throughout the year.

G M J Erulin and E M Rosenstiehl are also Directors of Tawa Management Limited with whom the Company has entered into a management agreement for the provision of management services. Management charges and fees payable to Tawa Management Limited in the period to 31 December 2007 were \$3.2 million (2006: \$nil). At the year end, the balance owed to Tawa Management was \$1.5 million (2006: \$nil).

REPORT OF THE DIRECTORS (CONTINUED)

Directors and Directors' interests (continued)

The Company maintains insurance cover for its Directors and Officers against liabilities which may be incurred by them while acting as Directors and Officers. As at the date of this report, indemnities are in force under which the Company has agreed to indemnify its Directors and Officers, to the extent permitted by law and the Company's Articles of Association, against all costs, charges, losses, liabilities and expenses that they may incur in the execution of their duties, powers and offices as Directors and Officers of the Company. Copies of these indemnities are kept at the Company's registered office and are open for inspection by any member of the Company without charge.

The Company made no political or charitable donations during the year (2006: \$ nil).

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare the 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 the group and of the profit or loss of the group for that year. 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;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Risk management

In the ordinary course of business, the Company is exposed to, and manages, a variety of risks, with insurance, credit and liquidity risk being of particular significance. The management of risk is fundamental to the Company, with the Board having responsibility for the overall system of internal control and for reviewing its effectiveness. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Company has processes for identifying, evaluating and managing the significant risks faced by the Company. These processes have been in place for the whole of the year and have continued up to the date this document was approved.

The Company is developing a detailed risk management process, culminating in a Board review, which identifies the key risks facing the Company. Each operational area within the Company is responsible for the identification and assessment of their particular risk exposures, and implementing risk management policies, limits and procedures, as approved by the Board.

The Board has delegated specific risk monitoring and control responsibilities to the Audit Committee and the Treasury Committee as follows:

- the Audit Committee, on behalf of the Board, considers the effectiveness of the operation of internal control processes and procedures in the Company during the financial year, including the review of reports from the external auditors, and reports its conclusions to the Board;
- the Treasury Committee considers the management of assets and liabilities, including the level of risk to be accepted in relation to both assets backing the Company's liabilities and assets backing the surplus and the monitoring and controlling of KX Reinsurance Limited's financial and regulatory reporting.

REPORT OF THE DIRECTORS (CONTINUED)

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors in accordance with the provisions of the Companies Act 1985.

Disclosure of information to Auditors

Each Director confirms that so far as he is aware there is no relevant audit information of which the Company's auditors are unaware. Each Director also confirms that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any such information and to establish whether the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

By order of the Board



Christopher Jones
Company Secretary
28 March 2008

CORPORATE INFORMATION

Directors

G M J Erulin – Chairman (Appointed 4 May 2007)
C G Bird – Chief Executive Officer (Appointed 4 May 2007)
C L E Allen
P M M Barbizet – Non Executive (Appointed 23 November 2007)
G Pagniez – Non Executive (Appointed 4 May 2007)
H Rodarie – Non Executive (Appointed 10 September 2007)
E M Rosenstiehl – Non Executive (Appointed 4 May 2007)
S L B Byrne – (Resigned 4 May 2007)
M Fitzgerald – (Resigned 4 May 2007)
G G MacNeil – (Resigned 4 May 2007)

Head Office & Registered Office

The Isis Building
193 Marsh Wall
London
E14 9SG

Registered Number: 494416

(England and Wales)

Company Secretary

C H E Jones FCIS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KX REINSURANCE COMPANY LIMITED
(FORMERLY CONTINENTAL MANAGEMENT SERVICES LIMITED)

We have audited the financial statements of KX Reinsurance Company Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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 Company's affairs as at 31 December 2007 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Deloitte & Touche LLP
Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
31 March 2008

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2007

Technical Account – General Business

	Notes	31 Dec 2007		31 Dec 2006	
		US\$000	US\$000	Restated US\$000	Restated US\$000
Gross premiums written			58		140
Outward reinsurance premiums			(10)		(138)
Net premiums written and earned			48		2
Allocated investment income from the Non-Technical Account	7		3,815		730
Claims paid					
Gross amount			(15,428)		(16,918)
Reinsurers' share			71,920		10,981
			56,492		(5,937)
Change in the provision for claims					
Gross amount			24,859		22,602
Reinsurers' share			(78,968)		(9,824)
Impact of discounting			(7,595)		10,904
			(61,704)		23,682
Net claims incurred			(5,212)		17,745
Net operating income / (expenses)	6		2,659		(5,050)
Balance on the Technical Account - General Business			1,310		13,427

The notes on pages 10 to 19 form part of these financial statements.

PROFIT AND LOSS ACCOUNT (CONTINUED)

For the year ended 31 December 2007

Non-Technical Account

	Notes	31 Dec 2007		31 Dec 2006	
		US\$000	US\$000	Restated US\$000	Restated US\$000
Balance on the Technical Account -					
General Business			1,310		13,427
Investment return			7,923		(1,493)
Investment income and realised gains	7	8,014		296	
Unrealised investment gains	7	3,803		(943)	
Investment expenses and charges	7	(79)		(116)	
Allocated to the Technical Account		<u>(3,815)</u>		<u>(730)</u>	
Other income	8		<u>402</u>		<u>3,635</u>
Profit on ordinary activities before tax			9,635		15,569
Tax on profit on ordinary activities	12		<u>-</u>		<u>-</u>
Profit for the financial year	16		<u>9,635</u>		<u>15,569</u>
 Statement of total recognised gains and losses					
Profit for the financial year			9,635		15,569
Exchange differences taken to reserves			533		(9,705)
Change in the value of group undertakings			-		1,440
			<u>10,168</u>		<u>7,304</u>

The notes on pages 10 to 19 form part of these financial statements.

BALANCE SHEET

As at 31 December 2007

	Notes	31 Dec 2007 US\$000	31 Dec 2006 Restated US\$000
Assets			
Investments			
Other financial investments	14	<u>165,022</u>	<u>78,701</u>
Reinsurers' share of technical provisions			
Claims outstanding	18	<u>18,052</u>	<u>93,709</u>
Debtors			
Investments in group undertakings		-	31,180
Debtors arising out of reinsurance operations		10,260	11,302
Other debtors	15	<u>125</u>	<u>756</u>
		<u>10,385</u>	<u>43,238</u>
Other assets			
Cash at bank and in hand		<u>25,962</u>	<u>31,610</u>
Prepayments and accrued income			
Other prepayments and accrued income		<u>1,608</u>	<u>569</u>
Total assets		<u>221,029</u>	<u>247,827</u>
Liabilities			
Capital and reserves			
Called up share capital	16	76,082	74,200
Capital contribution		47,900	47,900
Share premium account		5,000	5,000
Profit and loss account	17	<u>(712)</u>	<u>(10,880)</u>
Shareholders' funds attributable to equity interests		<u>128,270</u>	<u>116,220</u>
Technical provisions			
Claims outstanding	18	<u>86,735</u>	<u>100,212</u>
Creditors			
Creditors arising out of reinsurance operations		4,480	7,807
Other creditors including tax and social security	20	<u>1,544</u>	<u>23,588</u>
		<u>6,024</u>	<u>31,395</u>
Total liabilities		<u>221,029</u>	<u>247,827</u>

The notes on pages 10 to 19 form part of these financial statements.

These financial statements were approved by the Board of Directors on 28 March 2008 and were signed on its behalf on 28 March 2008 by:


Colin Bird
Chief Executive Officer

NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 and in accordance with applicable Accounting Standards in the United Kingdom. The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of certain assets, and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 as amended in December 2006.

The Company has not presented a cash flow statement under the exemptions available in Financial Reporting Standard 1: Cash flow statements (revised 1996) paragraph 5a.

2. Accounting policies

A summary of the principal accounting policies, which have been applied consistently (except for the policy on discounting as disclosed in note 2e), unless otherwise stated, are set out below.

a) Basis of accounting for underwriting activities

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

b) Premiums

Written premiums comprise reinstatement and adjustment premiums with regard to contracts written in previous financial years.

c) Claims incurred

Claims incurred include all claims and internal and external claims settlement expense payments made in respect of the financial period, together with the movement in the provision for claims outstanding and internal and external claims settlement expenses, including claims incurred but not reported.

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

d) Claims outstanding

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred up to, but not paid at, the balance sheet date, whether reported or not, together with all future costs related to the management of the run-off of the portfolio of claims. Material salvage and other recoveries are recorded as other assets and not deducted from outstanding claims.

The gross claims outstanding provisions and related reinsurance recoveries, net of specific provision for doubtful recoveries, are determined on the basis of information currently available. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used and the estimates made are reviewed regularly and are discussed further in note 3.

2. Accounting policies (continued)

e) Discounting

The Company's net technical provisions, estimated as set out in note 3 below, will be paid over a period of many years dependent upon the nature of the underlying risk, the claims outstanding and the related reinsurance recoveries. The net future liabilities have been reduced or "discounted" by an amount representing an estimate of future investment income from income-producing assets set aside to meet net claims liabilities. The payment patterns for claims outstanding are derived by the Company's actuaries from analysis of historical patterns experienced by the Company and other comparable companies in run-off. The Company's investment portfolio has been structured to minimise interest rate exposure such that the maturity profile of the fixed income investments matches the maturity profile of the technical provisions. The discount rate, hence anticipated future investment income, has been calculated with reference to relevant dates on the yield curve for Treasury bonds in the currencies in which the investments are held. This is consistent with a mark-to-market value for the invested assets of the Company at the balance sheet date.

f) Foreign currencies

The Company has chosen to represent its financial statements in US dollars as the Directors consider this more closely reflects the trading activities of the business. Monetary assets and liabilities are translated into US dollars at rates of exchange ruling at the balance sheet date. Revenue transactions in foreign currencies are translated into US Dollars at rates of exchange ruling at the date the transaction occurs. These translation differences are dealt with in the non-technical account.

In respect of business transacted in foreign currencies where liabilities are broadly matched by the holding of foreign currency assets in those currencies. Exchange differences arising on the opening net assets are taken directly to reserves.

g) Investment income, expenses and charges

Investment income is accounted for on a receivable basis, gross of any imputed tax credit. Interest is accrued up to the balance sheet date. Realised gains or losses represent the difference between net sales proceeds and purchase price.

h) Unrealised gains and losses on investments

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses comprises the increase/decrease in the period in the value of the investments held at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investments disposed of in the current period.

i) Allocation of investment return

All investment return is recognised in the non-technical account. An allocation of investment return is made from the non-technical account to the technical account. The actual investment return is allocated on the basis of investments supporting the general business technical provisions and associated shareholders' funds.

j) Taxation

Taxation is provided for by reference to the profits and losses recognised in these accounts after taking account of group or consortium relief. Deferred taxation is provided in full on timing differences between recognition of gains and losses in the financial statements and the recognition for taxation purposes. Deferred taxation liabilities are provided in relation to transactions that have occurred by the balance sheet date. Deferred taxation assets are recognised when it is considered that the benefit is more likely than not to inure to the Company.

k) Investments

Investments are shown in the financial statements at mid-market value at the balance sheet date. Investment transactions are recognised on a settlement date basis.

3. Estimation techniques and uncertainties

Introduction

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the technical provisions of the Company. There is considerable uncertainty as regards the eventual outcome of the claims that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified to the Company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the Company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Estimation techniques

As stated in Note 2d, the Company sets its provision for claims outstanding based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods and market benchmarks, as appropriate.

The adequacy of the claims outstanding provision is assessed by reference to actuarial projections of the ultimate development of claims in respect of each underwriting year. In addition, in certain areas of the portfolio, exposure analysis has been performed. This provision is derived through extensive analysis by the Company's in-house actuaries. The methods used, and the estimates made, are reviewed regularly. The methodology used to project ultimate development for liability classes is reviewed annually by the Company's actuary.

The provision for claims outstanding and the provision for all future expenses related to the run-off of the net liabilities are discounted to take account of future investment income which will be generated prior to settlement of the claims, as outlined in Note 2e above. The use of discounted technical provisions in representing the economic position of the Company necessarily depends upon the accuracy of the Company's estimate of:

- (i) future claims payments and associated reinsurance recoveries;
- (ii) the payment profiles attributable to claims payments and related reinsurance recoveries; and
- (iii) the future rate of return expected on invested assets.

Uncertainties

Whilst the Directors consider that the gross provision for claims and the related recoveries are fairly stated on the basis of the information currently available to them, due to the nature of the insurance industry there is inherent uncertainty in these estimates. This uncertainty is such that the ultimate liability, which will vary as a result of subsequent information and events, may result in adjustments to the amount provided. Adjustments to the amount of the provisions are reflected in the financial statements for the period in which the adjustments are made.

Significant delays occur in the notification of certain claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. In particular, estimates of technical provisions inevitably contain inherent significant uncertainties because extensive periods of time may elapse between the occurrence of an insured loss, the claim triggering the insurance under a claims-made coverage, the reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

The specific uncertainties affecting the Company's financial statements are as follows:

(i) Asbestos, pollution and other latent claims

The Company has net exposure to claims and claims related expenses emanating from exposures to asbestos, environmental pollution and other latent injuries. Such claims are frequently subject to disputes such as the extent of coverage and definitions of occurrence and possible legislative changes. Consequently, reserves for claims of this type cannot be determined using traditional actuarial techniques and the uncertainty surrounding the ultimate cost of settlement is greater than for more standard claims within the Company's portfolio. Significant adverse development may have a material impact on the Company's future results and net assets.

4. Change in accounting policies

On the Company's acquisition by Tawa Group on 4 May 2007 the Company changed its accounting policies as detailed below. This was to ensure consistency within the Group.

Discounting

In the current year the Company has adopted a new accounting policy of discounting the claims outstanding and the related reinsurance recoveries as disclosed in note 2e. The net future liabilities have been discounted by an amount representing an estimate of future investment income from income-producing assets set aside to meet net claims liabilities. The adoption of this new accounting policy is relevant to the Company's operations and effective for the accounting periods commencing on or after 1 January 2006. The impact of this change in accounting policy is set out in detail below.

	31 Dec 2006 Previously reported US\$000	31 Dec 2006 Restated US\$000
Profit and loss account		
Change in the provision for claims		
Impact of discounting	-	10,904
Statement of total recognised gains and losses		
Exchange differences taken to reserves	(7,237)	(9,705)
	<u>(7,237)</u>	<u>1,199</u>
Balance Sheet		
Reinsurers' share of technical provisions		
Claims outstanding	105,571	93,709
Profit and loss account	(52,728)	(10,880)
Technical provisions		
Claims outstanding	145,486	100,212
Increase in net assets	<u>12,813</u>	<u>4,377</u>

Foreign exchange

The Company previously reported in sterling and now elects to report in US dollars as the Directors consider this more closely reflects the trading activities of the business, as disclosed in note 2f. The comparative figures have been restated using the rate of exchange ruling at the balance sheet date to translate the previously reported balance sheet from £1 to \$1.95614. The comparative profit and loss has been converted from £1 to \$1.8397. This has not affected the profit in the financial year or the net assets.

Opening retained profit 31 December 2006	US\$000
As previously reported in 2006	(42,100)
Impact of the change in accounting policy on discounting	21,816
Impact of the change in reporting currency	2,100
Restated retained earnings (note 17)	<u>(18,184)</u>

5. Segmental reporting

The Directors regard the transaction of general insurance business in the United Kingdom and the management of its associated investments as the only business segment.

6. Net operating income / (expense)

	31 Dec 2007	31 Dec 2006 Restated
	US\$000	US\$000
Acquisition costs	(5)	(14)
Other income / (expenses) income including increases / (decreases) to provisions for doubtful reinsurance recoveries	<u>2,664</u>	<u>(5,036)</u>
	<u>2,659</u>	<u>(5,050)</u>

The provision for unallocated loss adjustment expenses and subsequent adjustments to the provision are included within net claims incurred.

7. Investment return

	31 Dec 2007	31 Dec 2006 Restated
	US\$000	US\$000
Investment income	6,904	3,170
Realised investment gains / (losses)	<u>1,110</u>	<u>(2,874)</u>
	8,014	296
Unrealised investment gains / (losses)	3,803	(943)
Investment management expenses	<u>(79)</u>	<u>(116)</u>
Investment return	<u>11,738</u>	<u>(763)</u>
Allocation to the technical account	3,815	730

8. Other income

	31 Dec 2007	31 Dec 2006 Restated
	US\$000	US\$000
Gains in relation to movements in foreign currency exchange rates	<u>402</u>	<u>3,635</u>
Other income	<u>402</u>	<u>3,635</u>

9. Employee's remuneration

	31 Dec 2007	31 Dec 2006 Restated
	US\$000	US\$000
Wages and salaries	1,025	2,784
Social security costs	<u>95</u>	<u>213</u>
	<u>1,120</u>	<u>2,997</u>
Average number of employees until July 2007, when staff were transferred to Tawa Management Limited	18	19

10. Directors' emoluments

	31 Dec 2007	31 Dec 2006
	US\$000	Restated US\$000
Highest paid Director		
Emoluments	<u>106</u>	<u>284</u>
	106	284
All Directors		
Emoluments	<u>562</u>	<u>631</u>
	562	631

11. Auditors' remuneration

	31 Dec 2007		31 Dec 2006	
	US\$000	%	Restated US\$000	%
Audit services				
Services as auditors	231	100	379	100
Other Services				
Valuation and actuarial services	-	-	-	-
	<u>231</u>	<u>100</u>	<u>379</u>	<u>100</u>

Significant non-audit services require pre-approval by the audit committee.

12. Taxation

	31 Dec 2007	31 Dec 2006
	US\$000	Restated US\$000
Current tax		
UK Corporation Tax on profit for the period	-	-
Group / consortium relief recoverable at non-standard rates	-	-
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing difference	-	-
Total tax on profit on ordinary activities	-	-

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK Corporation Tax to the profit on ordinary activities before tax is as follows:

12. Taxation (continued)

	31 Dec 2007	31 Dec 2006
	US\$000	Restated US\$000
Profit on ordinary activities before tax	<u>9,635</u>	<u>15,569</u>
Tax on profit on ordinary activities at standard UK Corporation Tax rate of 30% (2006: 30%)	(2,891)	(4,671)
Effects of:		
Expenses not deductible for tax purposes	(4)	-
Section 107 interest	-	522
Change in technical reserves disclaimed under FA2000 s107(4)	-	(5,319)
Group relief	815	-
Adjustment in respect of prior periods	-	(6,752)
Utilisation of tax losses	<u>2,080</u>	<u>16,219</u>
Total current tax	<u>-</u>	<u>-</u>

13. Rates of exchange

The rates of exchange used to translate items denominated in foreign currency at the balance sheet date relative to US\$1 for significant currencies are as follows:

	31 Dec 2007	31 Dec 2006
United Kingdom	£0.50	£0.51
Euro	€ 0.74	€ 0.67

14. Investments

	Market value		Cost	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
	US\$000	US\$000	US\$000	US\$000
Listed debt securities and other fixed interest securities	84,533	78,701	80,572	80,313
Deposits with credit institutions	80,489	-	80,490	-
	<u>165,022</u>	<u>78,701</u>	<u>161,062</u>	<u>80,313</u>

All the listed investments are quoted on a recognised investment exchange.

In accordance with normal market practice, Citibank N.A. has issued letters of credit for unearned premiums and outstanding losses. The collateral against these letters of credit includes a pledge to the value of \$7.7 million (31 December 2006: \$11.4 million) against an investment portfolio.

15. Other debtors

	31 Dec 2007	31 Dec 2006
	US\$000	Restated US\$000
Other debtors and prepayments - due within one year	125	756
	<u>125</u>	<u>756</u>

16. Called up share capital and shareholders' funds

	31 Dec 2007	31 Dec 2006
	US\$000	US\$000
Called up share capital		
Authorised 60,000,000 ordinary shares of £1 each (2006: 60,000,000)	<u>60,000</u>	60,000
Called up, allotted and fully paid 40,901,137 ordinary shares of £1 each (2006: 38,986,953)	76,082	72,318
£0.50 called up, allotted and fully paid ordinary shares of £1 each (2006: 1,914,184)	-	1,882
	<u>76,082</u>	<u>74,200</u>

Shareholders' funds attributable to equity interests

	31 Dec 2007	31 Dec 2006
	US\$000	Restated US\$000
Profit for the financial year	9,635	15,569
Exchange differences taken to reserves	533	(9,705)
Change in the value of group undertakings	-	1,440
Share capital paid up during the year	1,882	-
Shareholders' funds as at 1 January	116,220	108,916
Shareholders' funds as at 31 December	<u>128,270</u>	<u>116,220</u>

17. Profit and loss account

	31 Dec 2007	31 Dec 2006
	US\$000	Restated US\$000
At 1 January	(10,880)	(18,184)
Retained profit for the year	10,168	7,304
At 31 December	<u>(712)</u>	<u>(10,880)</u>

18. Claims outstanding

	Claims	Reinsurance	Net	Claims	Reinsurance	Net
	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec	31 Dec
	2007	2007	2007	2006	2006	2006
	Restated	Restated	Restated	Restated	Restated	Restated
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Provision before discounting	122,205	27,302	94,903	145,485	105,571	39,914
Discount	(35,470)	(9,250)	(26,220)	(45,273)	(11,862)	(33,411)
Net of discount	86,735	18,052	68,683	100,212	93,709	6,503

All claims outstanding and the provision for future administrative expenses are discounted to reflect the investment income which will be generated prior to settlement of the underlying claims and expenses.

The average mean term of the total portfolio of net liabilities is 10.37 years. The mean terms of gross claims outstanding and related reinsurance recoveries are projected separately taking into account historic payment patterns and the expected impact of the Company's cessation of underwriting activities and the implementation of the Company's run-off strategy.

The average, effective rate of investment return used for discounting is 4.21%.

19. Changes to prior year estimates

In the normal course of business the Company's ultimate projections of accident year premiums, commissions and claims are estimated using actuarial methodologies (see Note 3). The impact of movements during the year on prior year estimates, reflected in the Technical Account - General Business, prior to the impact of discounting, was a net gain of \$8.6 million, comprising movements in net earned premiums of (gain) \$0.1 million, net incurred commissions of (loss) \$nil and net incurred claims (gain) of \$8.5 million.

20. Other creditors including tax and social security

	31 Dec	31 Dec
	2007	2006
	US\$000	Restated
	US\$000	US\$000
Amounts due to group companies	1,464	-
Sundry creditors	80	23,588
	1,544	23,588

21. Related party transactions

Under FRS 8, the Company is exempt from the requirement to disclose related party transactions with other members of the Tawa group on the grounds that 90% or more of its voting rights are controlled within the group.

22. Parent company

In the opinion of the Directors, after the sale of the Company on 4 May 2007 to Tawa plc (formerly Tawa UK Limited), the ultimate parent company and ultimate controlling party is Financière Pinault S.C.A., a Société en commandite par actions incorporated in France. Copies of the group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004, Paris, France. The parent undertaking of the smallest group which includes the Company and for which group accounts are prepared is Tawa plc, a company incorporated in Great Britain. Copies of the financial statements of Tawa plc are obtainable from the registrar of companies, Companies House, Crown Way, Cardiff, CF14 3UZ

Prior to the sale of the Company the ultimate parent and controlling party and also the Company which headed the largest group of undertakings for which group accounts were drawn up and of which the Company was a member was the Loews Corporation, incorporated in the United States of America.