THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should immediately consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The whole text of this document should be read.

This document does not constitute a prospectus for the purposes of the Prospectus Rules and has not been approved by the Financial Services Authority but comprises an AIM admission document drawn up in accordance with the AIM Rules for Companies.

Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on AIM on 26 July 2007. **The Ordinary Shares are not dealt in on any other recognised investment exchange and no application is being or has been made for the Ordinary Shares to be admitted to any such exchange.**

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

Tawa plc together with the Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of Tawa and its Directors, the information contained in this document is in accordance with the facts, and this document makes no omission likely to affect the import of such information. In connection with this document, no person is authorised to give any information or make any representation other than as contained in this document.

Your attention is also drawn to the discussion of risks and other factors which should be considered in connection with an investment in the Ordinary Shares, set out in "Risk Factors" in Part III of this document.

Tawa plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 4200676)

Admission to trading on AIM
and
Placing and Subscription of 21,891,017 Ordinary Shares at 125 pence per share
to raise £27.4 million

KBC PEEL HUNT LTD

Nominated Adviser and Broker

The Placing is conditional, *inter alia*, on Admission taking place on or before 1 August 2007 (or such later date as the Company and KBC Peel Hunt may agree). The Placing Shares will rank in full for all dividends or other distributions declared, made or paid on the Ordinary Shares after Admission and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

KBC Peel Hunt, which is regulated by the Financial Services Authority, is acting as the Company's Nominated Adviser in connection with the proposed admission of the Company's Ordinary Shares to trading on AIM. Its responsibilities as the Company's Nominated Adviser under the AIM Rules for Nominated Advisers are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by KBC Peel Hunt as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). KBC Peel Hunt will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing or any acquisition of shares in the Company.

The distribution of this document outside the UK may be restricted by law and therefore persons outside the UK into whose possession this document comes should inform themselves about and observe any restrictions as to the Placing, the Ordinary Shares or the distribution of this document. The Ordinary Shares have not been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended, or under the securities laws of Canada, Australia or Japan and, subject to certain exceptions, they may not be offered or sold directly or indirectly within the United States, Canada, Australia, or Japan or to, or for the account or benefit of, US persons or any national, citizen or resident of the United States, Canada, Australia or Japan. This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful.

No Placing Shares have been offered or sold, or will be offered or sold, to the public in any member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") except (with effect from and including the Relevant Implementation Date): (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or (d) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

This document has not been prepared in the context of a public offer of securities in France within the meaning of Article L.411-1 of the French *Code monétaire et financier* and Articles 211-1 *et seq.* of the General Regulations (*Règlement Général*) of the *Autorité des marchés financiers* ("AMF") and has therefore not been and will not be submitted to the clearance procedures of the AMF in France or notified to the AMF after clearance of the competent supervisory authority.

The Ordinary Shares have not been offered, sold or otherwise transferred and will not be offered, sold or otherwise transferred, directly or indirectly, to the public in France. This document has not been and will not be: (i) released, issued, distributed or caused to be released, issued or distributed to the public in France, or (ii) used in connection with any offer for subscription or sale of the Ordinary Shares to the public in France.

Any offers, sales or other transfers of the Ordinary Shares in France will be made in accordance with Article L.411-2 of the French *Code monétaire et financier* only: (i) to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case, and except as otherwise stated under French laws and regulations, investing for their own account, all as defined in and in accordance with Articles L.411-2, D.411-1 to D.411-4, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier* and/or (ii) to investment services providers authorised to engage in portfolio management on a discretionary basis on behalf of third parties, or (iii) in a transaction that, in accordance with Article L.411-2-II-1° or-2° or-3° of the French *Code monétaire et financier* and Article 211-2 through 211-4 of the General Regulations of the AMF, does not constitute a public offer (*appel public à lépargne*), in each case in compliance with Articles L.341-1 to L.341-17 of the French *Code monétaire et financier*." The Ordinary Shares may be resold directly or indirectly only in compliance with Articles L.411-1, L.411-2, L.412-1, L.621-8 through L.621-8-3 and L.341-1 to L.341-17 of the French *Code monétaire et financier*.

Copies of this document, which is dated 20 July 2007, will be available free of charge to the public during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the registered office of the Company at London Underwriting Centre, No 3 Minster Court, Mincing Lane, London EC3R 7DD and from the offices of KBC Peel Hunt at 111 Old Broad Street, London EC2N 1PH for one month from the date of Admission.

CONTENTS

DIRECTORS, OFFICERS AND ADVISERS

Directors	**Robin Anthony Gildart Jackson,** *Chairman and Independent Non-executive Director* **Gilles Marie Jacques Erulin,** *Chief Executive Officer* **Colin Graham Bird,** *Chief Financial Officer* **David Andrew Vaughan,** *Chief Operating Officer* **Anthony John Hamilton,** *Independent Non-executive Director* **John Joseph Hendrickson,** *Independent Non-executive Director* **Patricia Marie Marguerite Barbizet,** *Non-executive Director* **Gilles François Pagniez,** *Non-executive Director* **Loïc Philippe Marie-Joseph Brivezac,** *Non-executive Director* all of:
Registered Office	London Underwriting Centre No. 3 Minster Court Mincing Lane London EC3R 7DD
Secretary	**Christopher Harold Edward Jones**
Nominated Adviser and Broker	**KBC Peel Hunt Ltd** 111 Old Broad Street London EC2N 1PH
Auditors and Reporting Accountants	**Deloitte & Touche LLP** Stonecutter Court 1 Stonecutter Street London EC4A 4TR
Solicitors to the Company	**LeBoeuf, Lamb, Greene & MacRae** No. 1 Minster Court Mincing Lane London EC3R 7YL
Solicitors to KBC Peel Hunt	**Addleshaw Goddard LLP** 150 Aldersgate Street London EC1A 4EJ
Principal Bankers	**Barclays Bank plc** 1 Churchill Place Canary Wharf London E14 5HP
Registrars	**Computershare Investor Services PLC** PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH

PLACING STATISTICS

Placing Price	125 pence
Number of Existing Ordinary Shares in issue immediately prior to Admission	80,000,000
Number of Placing Shares	16,000,000
Number of Subscription Shares	5,891,017
Total number of Ordinary Shares in issue on Admission	101,891,017
Percentage of Enlarged Issued Share Capital subject to the Placing	15.7 per cent.
Market capitalisation on Admission at the Placing Price	£127.4 million
Gross proceeds of the Placing available to the Company	£20.0 million
Estimated net proceeds of the Placing available to the Company	£17.0 million
Percentage of Ordinary Shares held by Financière Pinault on Admission	79.0 per cent.

EXPECTED TIMETABLE

Admission and dealings in the Ordinary Shares to commence on AIM	8.00 a.m. on 26 July 2007
CREST accounts credited	26 July 2007
Despatch of definitive share certificates (where applicable) by	9 August 2007

PART I

KEY INFORMATION

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

Any decision to invest in Ordinary Shares should be based on an assessment of this document as a whole.

See Part III – Risk Factors for a discussion of certain factors that must be taken into account when considering whether to acquire Ordinary Shares.

Introduction

Tawa was formed in 2001 to acquire and manage the run-off of non-life insurance companies and portfolios of policies and to provide run-off related services.

Tawa is able to conduct nearly all activities relating to run-offs, from acquisition through to the management and to finality. Its claims-focused, accelerated run-off strategy is a key strength for the Group and is designed to protect and then create shareholder value while respecting the rights of policyholders.

Tawa's strategy is to build up and manage a portfolio of run-off businesses and by doing so become a consolidator of the non-life run-off market. Since its formation, Tawa has acquired CX Re and KX Re and is managing the run-off of these businesses.

Non-Life Run-off

When an insurance company ceases underwriting new business, or a particular line of business, the insurer or line of discontinued business is placed in run-off. Many major insurance groups have subsidiaries or portfolios of business which have been put into run-off either as a strategic move or due to poor underwriting results.

It is estimated that the size of the global non-life run-off market is over $400 billion in liabilities (Source: *PwC – 2006 US run-off market survey and PwC – February 2007 European run-off market survey*). Although this market is primarily in the UK, Continental Europe and the US, recent run-off opportunities have arisen in new markets such as Bermuda, Australia and Asia. London is acknowledged as the most active market due to its well developed legal and regulatory framework which facilitates the ability to achieve finality for runoffs.

Competitive Strengths

The Directors believe that the Group's combination of competitive strengths will continue to enable it to take advantage of opportunities that exist in the run-off market. These strengths include:

- The Tawa brand.
- The Group's acquisition skills and capability.
- The Group's run-off skills, including run-off management, accelerated descaling of run-offs, asset and liability management and actuarial analysis.
- Change management.

Strategy

Tawa's strategy is to acquire further run-off companies and portfolios in the UK, US, continental Europe, Bermuda, Australia and elsewhere in the world as suitable opportunities arise. This is intended to enable Tawa to construct and manage a portfolio of run-offs that are at differing stages of maturity. Such a portfolio may, subject to regulatory approval, enable capital surplus to regulatory requirements to be released as and when reserves have been sufficiently reduced and become more stable. This should allow a more stable cash flow over time for the Group than would be the case with a single run-off. Tawa's strategy for managing run-offs is to use its in-house skills, experience and knowledge to accelerate the run-off process by commuting policies and to release excess capital to the Group when permitted.

Acquiring additional insurance entities is key to Tawa's business model. The top executives spend a very significant part of their time considering potential acquisitions. Recently Tawa has been considering up to eight opportunities of various sizes and characteristics, with confidentiality agreements being signed on a significant proportion of them. The current pipeline includes targets in the UK, US/Bermuda and Australia which cover policies ranging from the US liability to property/catastrophe and the US/UK asbestos and mass tort claims and have gross liabilities from $20 million to $1 billion. As at 30 June 2007 Tawa was in the second round of the sale process for a company being auctioned. It is also negotiating heads of terms for another business in a one-to-one negotiation. Although there is no guarantee that any of these acquisitions will come to fruition, the Board would be most disappointed if at least one additional insurance business was not acquired within two years from Admission.

Tawa will seek to generate value from run-offs in a variety of ways, depending on the nature of each run-off entity in question. These include:

- buying net assets at a significant discount to economic value and accelerating capital extraction,
- buying volatile books of business and applying Tawa's management techniques to create value and reduce volatility,
- earning management fees from managing run-offs, and
- obtaining synergies and process efficiencies from combining the management of multiple run-offs.

Summary of Historic Trading

Historically, CX Re has been the principal driver of value for Tawa and the table below indicates that Tawa generated $181 million of value in CX Re from the date of its acquisition to 31 December 2006. After taking into account management charges and increases in total operating expense, Tawa generated an operating surplus of $139 million. Over the same period the net discounted reserves of $1.7 billion as at 31 December 2002 deteriorated by $181 million. When Tawa acquired CX Re and had injected approximately $21 million of capital, CX Re had net assets of $140 million.

After taking into account the reserve deterioration and the operating surplus, the net assets of CX Re are stated as $98 million at 31 December 2006. Tawa paid $25 million in all for these assets and has earned a value added management fee of $5 million a year for running the portfolio. As set out in paragraph 4 of Part II of this document the majority of the equity in CX Re was sold to a consortium on 21 March 2006 and subsequent to that date has been equity accounted by Tawa.

CX Re summary financial information	*Year ended 31 December*				
($ Millions)	*2003*	*2004*	*2005*	*2006*	*Total*
Commutation profits	20	41	30	23	114
Investment returns in excess of risk free rate	12	(3)	6	5	20
Tax loss realisation	–	–	–	47	47
Value generated by run-off	32	38	36	75	181
Run-off fee (Tawa Management)	(5)	(5)	(5)	(5)	(20)
Increases in total operating expense	(2)	(6)	(6)	(8)	(22)
Operating surplus	25	27	25	62	139
Net assets acquired					119
Capital injected on acquisition					21
Net claims development					(181)
"Adjusted" net assets acquired					(41)
Operating surplus					139
Net assets (31 December 2006)					98

(Source: Unaudited Company analysis)

Pro-forma Statement of Net Assets

The unaudited pro-forma statement of net assets, which reflects net assets of $234.1 million as if the Placing, Subscription and the acquisition of KX Re had taken place on 31 December 2006, is set out in Part V of this document.

Current Trading and Prospects

The Group's results are principally affected by the operations of the insurance carriers (CX Re and KX Re) and Tawa Management. To the extent that the insurance carriers' claims performance (net of reinsurance) is better than expected, a profit can be recognised in the insurance carriers. Conversely, to the extent that claims deteriorate (net of reinsurance), net assets will be diminished. Where possible, management endeavour to commute liabilities to create embedded value. Typically commutations are more prevalent towards the second half of the year. Tawa Management receives fees from the insurance carriers for managing the run-offs, and fees from third party consulting. Tawa incurs costs in investigating the feasibility of acquiring new run-off opportunities and corporate overheads. For successful acquisitions, acquisition costs are capitalised and to the extent that acquisitions (if any) are made at a discount to net assets the discount will be recognised as profit on completion. The Directors believe that the market for acquisitions continues to be positive and the Board would be most disappointed if at least one additional insurance business was not acquired within two years from Admission.

CX Re

On 1 January 2007 a Part VII transfer became effective, which transferred $74m of liabilities and matching reinsurance assets from CX Re to CNA Insurance Company Limited. Whilst this has no effect on the net assets of CX Re, the transfer eliminated any credit risk on the associated reinsurance assets. CX Re's commutation programme has continued since the year end and expectations for embedded value creation for 2007 have not changed. With respect to items affecting CX Re, other than commutations, since 31 December 2006 deterioration in reserving has been broadly set off by improvements to other items.

KX Re

The acquisition of KX Re was completed on 4 May 2007. Management accounts for the period from 31 December 2006 to the completion date show a break even position. The KX Re accelerated run-off strategy is commencing with the integration of the management processes following completion. Tawa Management will utilise the same techniques used on CX Re to descale the balance sheet.

Tawa Management

Tawa Management's trading for the first half of 2007 is in line with management's expectations. Tawa has recently strengthened the third party consulting business by recruiting two asbestos experts from the London market, which should have a positive although modest impact on Tawa Management's revenue from the third party consulting business.

Management

Tawa was formed with a group of senior corporate finance, restructuring, legal and regulatory professionals from PricewaterhouseCoopers ("PwC") with extensive experience in the run-off field.

The management team have extensive experience in developing the processes, systems and skills required for supporting a run-off, and have wide experience in structuring and negotiating commutations, having managed several billion dollars of liabilities during the course of their respective careers. Furthermore the management team have specialist skills covering run-off claims management and inspections, commutations, asset and liability management, actuarial and change management.

Controlling Shareholder

Immediately following Admission, 79.0 per cent. of the Company's issued Ordinary Shares will be beneficially owned by Financière Pinault. The Directors believe that the involvement of Financière Pinault in its operations has been important in the pursuit and implementation of its strategy. However, Financière Pinault and the Directors expect that the future growth of Tawa through acquisitions and further issues of equity may result in a dilution of Financière Pinault's shareholding over time.

Dividend Policy

In the absence of unforeseen circumstances and subject to there being sufficient distributable reserves, the Directors intend to pay a dividend in early 2008, reflecting a vast majority of the net earnings of Tawa Management for 2007. For reference purposes only, Tawa Management's net earnings for 2006 were £2.0 million.

The Directors intend that funds generated by the Group from cash extracted from run-offs will either be reinvested in the development of the business and further acquisitions or may be paid to Shareholders in the form of special dividends.

Reasons for Admission and details of the Placing and the Subscription

The Directors believe that Tawa will be the first non-life run-off consolidator to be listed in the UK, and that Admission will be beneficial for Tawa, as it will enable Tawa to use equity as a currency for future acquisitions and to conduct secondary fundraisings through the placing of further equity. In addition, Admission is expected to enhance Tawa's credibility in the market and increase awareness of its brand. The Directors also consider that the recruitment, retention and incentivisation of key staff through the use of share based incentives will be important to the Group's continued development.

KBC Peel Hunt, as agent for the Company, has conditionally placed 16,000,000 new Ordinary Shares with investors at the Placing Price. The Placing, which is not underwritten by KBC Peel Hunt, is conditional, *inter alia*, upon the admission of the Company's Ordinary Shares to trading on AIM by 8.00 a.m. on 26 July 2007, or such later date as KBC Peel Hunt and the Company agree (being no later than 5.00 p.m. on 1 August 2007). The Placing is intended to raise approximately £20.0 million for the Company, before expenses (£17.0 million after expenses). Approximately $20 million (approximately £9.8 million at the date hereof) will be used to partially repay a bridge loan from Financière Pinault for the acquisition of KX Re which was advanced to the Company on 3 May 2007. The remaining proceeds of approximately £7.2 million (after expenses) will be used to provide working capital.

Conditional on Admission, Financière Pinault has agreed to convert the balance of the bridge loan facility for the acquisition of KX Re (approximately $15 million) into Ordinary Shares at the Placing Price.

PART II

INFORMATION ON THE GROUP

1. Introduction

Tawa was formed in 2001 to acquire and manage the run-off of non-life insurance companies and portfolios of policies and to provide run-off related services.

Tawa is able to conduct nearly all activities relating to run-offs, from acquisition through to the management and to finality. Its claims-focused, accelerated run-off strategy is a key strength for the Group and is designed to protect and then create shareholder value while respecting the rights of policyholders.

Tawa's strategy is to build up and manage a portfolio of run-off businesses and by doing so become a consolidator of the non-life run-off market. By creating a diversified portfolio of run-off businesses at different stages of the run-off process, Tawa should benefit from economies of scale together with enhanced and more stable earnings and cash flows. Since its formation, Tawa has acquired CX Re and KX Re and is managing the run-off of these businesses.

The Directors believe that admission to AIM will be beneficial for Tawa's business by enabling Tawa to use equity as a more attractive currency for future acquisitions and to conduct secondary fundraisings through the placing of further equity.

2. Non-life Run-off and the Non-life Run-off Market

An explanation of non-life run-off

When an insurance company ceases underwriting new business, or a particular line of business, the insurer or line of discontinued business is placed in run-off. Many major insurance groups have subsidiaries or portfolios of business which have been put into run-off either as a strategic move or due to poor underwriting results.

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

The insurance liabilities, which reflect the estimated claims on policies underwritten by each entity, are based upon current outstanding claims, an actuarial analysis of what future claims may amount to and the loss adjustment expense ("LAE"), which as used in this document includes the anticipated overhead costs of the run-off. In general, the confidence in the level at which claims reserves are set is dependent upon the recent claims history for short tail claims and market bench marks or contract exposure analysis for long tail claims, taking into account the effects of inflation during the period the claims remain unsettled.

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

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

An insurance entity in run-off is a regulated company (the FSA being the regulator of insurance companies in the UK). The regulators require run-off companies to comply with accepted market principles, conduct risk assessments and monitor the progress of the company's run-off against a plan agreed with them. Run-off companies are required to adopt appropriate methodologies to compute the level of capital to be applied against the various risks they face, and the regulators will only allow a distribution to shareholders once the company can demonstrate that its capital is surplus to its ongoing requirements.

Approaches to non-life run-off management

There are four main approaches in the industry to run-off management:

1. **Embedded run-off** – The insurance carriers' existing management team manage the run-off process without the involvement of a third party. Typically, the management team are more experienced at managing claims in an ongoing underwriting environment rather than actively managing run-offs, which require different skills. The run-off can distract management, increase the cost of capital for the insurer and negatively impact the insurer's credit rating.

2. **Outsourcing** – The insurance company outsources the management or selected aspects of management of the run-off to a third party. However, the assets and liabilities of the run-off business remain on the balance sheet of the insurance company. In practice it is often difficult to align the interests of the third party with the interests of the insurance company.

3. **Reinsurance** – The insurance company reinsures the run-off liabilities with a third-party reinsurer, who then takes over the management of the portfolio. The transferring company may present the transaction as bringing "finality" to its run-off portfolio, but claims can (and in some cases have) deteriorated to the point that the cost to settle the claims exceeds the limits of the purchased cover. The transferring company may seek to avoid that scenario by purchasing a cover without any limit, but such covers are not freely available outside of "reinsurance to close" policies sold to syndicates in the Lloyd's market. Even an uncapped cover does not provide finality since the transferring company bears the credit risk of the reinsurer becoming insolvent and there remains the risk of coverage disputes.

4. **Disposal** – Achieving finality for an owner of a run-off requires the sale of a company in run-off, the novation of a portfolio in run-off to a third party such as Tawa or the use of specialist legal techniques. A sale can be beneficial to the seller as it eliminates the need for their management to devote further time and resources to the entity or portfolio, removes the risk that the established reserves for the business may prove to be inadequate as well as allowing for the redeployment of capital allocated to the portfolio or business in run-off. Once the run-off exposure has been removed from its balance sheet, the seller may experience an enhanced credit rating or an improvement in overall financial creditworthiness. For example, following the reinsurance of the Equitas portfolio and the proposed novation of the liabilities to Berkshire Hathaway Inc., Standard & Poors upgraded Lloyd's to an "A+" from an "A" rating.

Opportunities in the run-off market

It is estimated that the size of the global non-life run-off market is over $400 billion in liabilities (Source: *PwC – 2006 US run-off market survey and PwC – February 2007 European run-off market survey*). Although this market is primarily in the UK, Continental Europe and the US, recent run-off opportunities have arisen in new markets such as Bermuda, Australia and Asia. London is acknowledged as the most active market due to its well developed legal and regulatory framework which facilitates the ability to achieve finality for run-offs.

The insurance industry has recently experienced consolidation. As a result of this consolidation and other factors, participants may have portfolios of business that are either inconsistent with their ongoing business, have proven unprofitable or provide excessive exposure to a particular business line. These non-core and/or discontinued portfolios are often associated with potentially large exposures and lengthy time periods before resolution of the remaining insured claims resulting in significant uncertainty to the insurer covering those risks.

The global run-off market is currently fragmented and a large number of portfolios in run-off are either embedded in and managed by large insurance companies or are managed through outsourcing to third party service providers. The Directors believe that there is an opportunity to acquire such portfolios or insurance companies, thus providing certainty to the current owners, without prejudicing the security for the policyholders. Furthermore, the Directors believe that the implementation of Solvency II will make it more attractive for certain insurance companies to dispose of their run-offs.

3. Company History

Tawa was formed in 2001 to acquire and manage the run-off of insurance companies and portfolios of policies and to provide run-off related services. Since formation, Tawa has received financial backing and operational support from Financière Pinault, a diversified French-based holding entity operating under the business name "Groupe Artémis". Financière Pinault has agreed to subscribe for 5,891,017 additional Ordinary Shares through the Subscription and at Admission will hold 79.0 per cent. of the Ordinary Shares. Financière Pinault has a long-standing participation in the run-off arena, having owned and managed up to \$6 billion of life liabilities in run-off in Japan (Aoba Life), \$4 billion of life liabilities in run-off in the USA (Aurora National Life Assurance Company) and \$2.2 billion of non-life liabilities in run-off in the UK through Tawa (CX Re). A summary of the agreements between Financière Pinault and the Group as at Admission can be found in paragraph 18 of Part VII of this document.

Tawa was formed with a group of senior corporate finance, restructuring, legal and regulatory professionals from PwC with extensive experience in the run-off field. The Group now employs approximately 100 employees, many of whom are insurance professionals with additional specialist skills covering run-off claims management and inspections, commutations, asset and liability management, actuarial and change management.

On 31 October 2002, Tawa acquired CX Re, formerly called CNA Reinsurance Company Limited, from CCC. At that time CX Re had only recently been put into run-off and had highly volatile reserves. The Company paid an initial nominal consideration of \$1 for CX Re, and injected approximately \$21 million of further capital to facilitate regulatory approval for the change in control. The Company also paid further net consideration of approximately \$4 million. In addition, deferred consideration was agreed with respect to tax losses used by CX Re above a certain threshold. A summary of the acquisition agreement can be found in paragraph 19 of Part VII of this document.

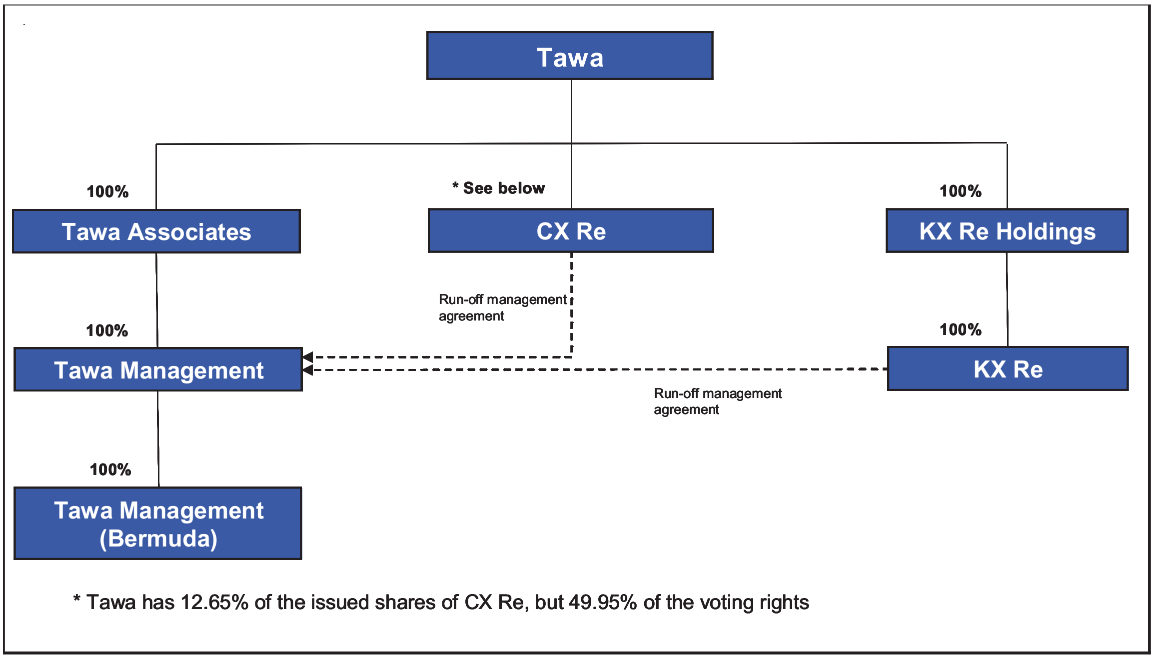
On 21 March 2006, Tawa sold most of its shares in CX Re to a consortium. Tawa retains 12.65 per cent. of the non-voting shares and 49.95 per cent. of the voting shares. Tawa also retains most of the economic interest in CX Re in the form of deferred consideration from the sale. Tawa Management continues to manage the run-off under a contract running through to 2010. A summary of the sale agreement and related documents can be found in paragraph 21 of Part VII of this document.

At the time that CX Re was acquired it was estimated to have over \$2.2 billion in gross undiscounted liabilities and was the largest solvent company run-off in the London company market, and was one of the largest run-offs in the world. Due to the size of CX Re and the volatility of its reserves, management subsequently focused primarily on reducing the volatility of the reserves and integrating CX Re. Tawa is now actively looking for further acquisitions.

On 4 May 2007, Tawa completed the acquisition of KX Re, formerly called Continental Management Services Limited. The consideration, which was paid in cash, was \$64.3 million, subject to completion adjustments which are in the process of being agreed. Any adjustments are not expected to be material to Group net assets. The amount of \$35m was financed through bank facilities, with the balance being financed through a bridge loan from Financière Pinault. A summary of the terms of the bank facilities agreement and of the share purchase agreement can be found in paragraphs 19.4 and 19.5 of Part VII of this document respectively.

4. Group Structure and Companies

The following diagram shows the Group structure:



Tawa

Tawa is the holding company for the Group.

Tawa Management

Tawa Management is a subsidiary of Tawa which manages the run-off of insurance companies that the Group acquires and provides consulting services to third parties.

The management team have extensive experience in developing the processes, systems and skills required for supporting a run-off, and have wide experience in structuring and negotiating commutations, having managed several billion dollars of liabilities during the course of their respective careers. Furthermore, the management team have specialist skills covering run-off claims management and inspections, commutations, asset and liability management, actuarial and change management.

Tawa Management has run-off management agreements in place with both CX Re and KX Re, which allow it to manage the run-offs in return for a management fee, in both cases providing for a reimbursement of costs plus an agreed annual fee and, in the case of CX Re, a performance related element. Summaries of these agreements can be found in paragraph 20 of Part VII of this document.

Tawa Management has also applied to the FSA for authority as an intermediary to enable it to manage third party portfolios. Discussions with the FSA are currently ongoing but the Company is expecting to be given a final decision in the next few months.

CX Re

From 1977 CX Re underwrote a complex portfolio of US and international insurance risks including property, aviation, general casualty, medical malpractice, errors and omissions and directors and officers lines of business. CX Re ceased underwriting in August 2001 and has been in run-off since then.

At 31 October 2002 when Tawa acquired CX Re, the portfolio was estimated to have over $2.2 billion in gross undiscounted liabilities, more than half of which were based in the US. At that time CX Re was the largest solvent company run-off in the London company market, and one of the largest run-offs in the world.

Since 2002, Tawa Management has reduced the gross undiscounted liabilities of CX Re from $2.2 billion to $0.5 billion through the successful implementation of a strategy of accelerated run-off. In each of the last three years more than $200 million of liabilities have been commuted in a total of 205 commutations. The Directors believe that this reduction, of over 75 per cent. in four years, is one of the most rapid reductions of insurance liabilities ever seen in the London company market. This approach has led to a significant decrease in the volatility of the reserves in CX Re and it is anticipated that some regulatory capital could be released over the next two to three years.

On 21 March 2006, CX Re restructured its share capital by sub-dividing the issued voting shares into "A" non-voting shares and "B" voting shares. On this date, Tawa disposed of 87.35 per cent. of the "A" Shares and 50.05 per cent. of the "B" voting Shares to two financial institutions and other purchasers. The consideration for the sale was an initial amount from each purchaser with a further amount payable as deferred consideration, based on the value of future distributions from CX Re.

CX Re has agreed to surrender, by way of consortium relief, losses totalling $438 million to the two financial institutions and Tawa. The proceeds will not become available to the Group until the tax computations of the consortium members have been agreed by HMRC. As a result of the transaction, CX Re has recognised $27 million of consideration for tax losses surrendered by way of consortium relief, net of an incentive fee payable to Tawa for selling a proportion of CX Re to the consortium members and net of an incentive fee payable to CCC (both as further described in paragraph 21.6 of Part VII of this document).

For 2005 and the period to 20 March 2006 an additional $122 million of tax losses have been surrendered to Christies International plc, a member of Groupe Artémis, the consideration for which was $16.5 million. This is held in an escrow account pending agreement of its tax computations by HMRC, resulting in a total tax credit in the accounts for the period to 31 December 2006 of $43 million.

At 31 December 2006 the net assets of CX Re are stated at $98m which has been used to derive the estimated deferred consideration due to Tawa. This deferred consideration is treated under the equity accounting method as part of Tawa's investment in CX Re.

KX Re Holdings

KX Re Holdings is the intermediary holding company of KX Re and was formed as a special purpose vehicle to enter into the facilities agreement with IXIS Bank as lead arranger to fund the acquisition of KX Re. A summary of this agreement is set out in paragraph 19 of Part VII.

KX Re

The business of KX Re, formerly called Continental Management Services Limited, comprises the run-off of primarily reinsurance liabilities derived from both risks written by it and from the various portfolios which have been transferred into it via Part VII transfers or similar schemes. The most recent transfers were of portfolios from Continental Reinsurance Corporation Limited (December 2004) and Continental Insurance Company UK Branch (December 2005).

KX Re is considered a mature run-off as the latest exposures date back to 1993. The portfolio contains a wide variety of exposures to marine and non-marine insurance and reinsurance risks which are predominantly in US dollars. The majority of the risks relate to 1985 and prior. A significant proportion of the liabilities are derived from claims relating to asbestos, pollution and health hazards. The total gross undiscounted liabilities are estimated at $123 million at 31 December 2006 after adjusting for certain acquisition related transactions.

KX Re is a well capitalised run-off and in January 2006 the FSA approved a capital reduction of £15 million. As at 31 December 2006, its unaudited balance sheet, which has been discounted to conform with Tawa's accounting policies, reflected a surplus of $118 million after adjusting for certain post balance sheet acquisition related transactions.

Tawa Associates

Tawa Associates Ltd ceased trading in 2005. The business was the subject of a capital reduction process effective on 19 July 2007 to create a distributable reserve at least equal to the current loss so that any future profits made (or, more likely, dividends received) by Tawa Associates can be paid onwards to Tawa in full, by way of a dividend.

Tawa Management (Bermuda)

Tawa Management (Bermuda) is a subsidiary of the Group incorporated and licensed in Bermuda, and has been set up to seek opportunities in the off-shore market.

5. Strategy

Tawa's strategy is to acquire further run-off companies and portfolios in the UK, US, continental Europe, Bermuda, Australia and elsewhere in the world as suitable opportunities arise. This is intended to enable Tawa to construct and manage a portfolio of run-offs that are at differing stages of maturity. Such a portfolio may, subject to regulatory approval, enable capital surplus to regulatory requirements to be released as and when reserves have been sufficiently reduced and become more stable. This should allow a more stable cash flow over time for the Group than would be the case with a single run-off. Tawa's strategy for managing run-offs is to use its in-house skills, experience and knowledge to accelerate the run-off process by commuting policies and to release excess capital to the Group when permitted.

Tawa Management uses its contacts, networks and knowledge of the industry to identify further potential targets for Tawa to acquire, focussing on groups with discontinued operations and stand-alone companies that have common interests with Tawa's current run-offs or fit with the Tawa business model.

Tawa structures its deals in order to be under no obligation as an acquirer of a run-off portfolio to utilise its own resources, after an acquisition, to meet policyholders' claims to the extent that the acquired business's assets are not sufficient to pay outstanding claims. The FSA may withhold approval for an acquisition if it does not believe that policyholders are adequately protected. If more capital is required at the time of acquisition it is a matter of negotiation between Tawa and the seller over whether additional capital is provided either by Tawa or by the seller and if no agreement is reached the transaction is abandoned.

Acquiring additional insurance entities is key to Tawa's business model. The top executives spend a very significant part of their time considering potential acquisitions. Recently Tawa has been considering up to eight opportunities of various sizes and characteristics, with confidentiality agreements being signed on a significant proportion of them. The current pipeline includes targets in the UK, US/Bermuda and Australia which cover policies ranging from the US liability to property/catastrophe and the US/UK asbestos and mass tort claims and have gross liabilities from $20 million to $1 billion. As at 30 June 2007 Tawa was in the second round of the sale process for a company being auctioned. It is also negotiating heads of terms for another business in a one to one negotiation. Although there is no guarantee that any of these acquisitions will come to fruition, the Board would be most disappointed if at least one additional insurance business was not acquired within two years from Admission.

Future acquisitions are expected to be funded through a mixture of cash, debt, issuing equity to the seller and secondary fundraisings through the placing of further equity. The Directors expect to be able to utilise future Group cash reserves that are expected to be generated from the cash flow extracted from the Company's existing run-off entities. The Directors intend to evaluate each acquisition separately to optimise the structure of the consideration and potential leverage.

In addition to acquiring stand-alone companies, Tawa is in exploratory discussions about transferring portfolios of liabilities into KX Re through Part VII transfers. Any such transaction would involve a combination of risk premium paid by the seller to support the transfer and additional capital (or capital retained rather than distributed from KX Re to Tawa) to meet the capital-adequacy requirements for obtaining regulatory and court approval. The precise allocation of premium and capital would be a matter for commercial negotiation. Any such transaction would require approval from IXIS Bank who have provided $40 million of credit facilities to KX Re Holdings.

By building the Tawa franchise through acquisitions, the Directors expect to be able to attract and retain further experienced management and employees, and expect to be able to achieve synergies and process efficiencies from combining the management of the run-offs within the Group.

Tawa is building a third party services advisory business and has recently recruited two asbestos specialists.

Tawa will seek to generate value from run-offs in a variety of ways, depending on the nature of each run-off entity in question. These include:

- buying net assets at a significant discount to economic value and accelerating capital extraction,
- buying volatile books of business and applying Tawa's management techniques to create value and reduce volatility,
- earning management fees from managing run-offs, and
- obtaining synergies and process efficiencies from combining the management of multiple run-offs.

6. Operations

The Group is able to conduct nearly all activities relating to run-offs, from acquisition through the management and to finality. Its claims-focused, accelerated run-off strategy is designed to protect and then create shareholder value while respecting the rights of policyholders.

Acquisition capability

Tawa evaluates each potential acquisition target by carefully analysing the portfolio's risk exposures including reserve adequacy, credit risk with respect to reinsurance recoverables and invested assets. If Tawa decides to pursue the acquisition, it will price the acquisition with the goal of achieving an appropriate risk adjusted return. That price will take into account Tawa's assessment of the risks (both based on actuarial data and an assessment of major claims in the portfolio), the extent to which the vendor is willing to mitigate such risks through indemnifications or warranties, Tawa's assessment of the opportunity to negotiate with policyholders and reinsurers and otherwise manage the target's liabilities, and a marked-to-market valuation of the target's invested assets.

Review and strategy development

Following agreement on an acquisition, Tawa draws up a comprehensive run-off plan for the entity. This run-off plan includes such details as: how it will manage the insurance liabilities, foreign currency and interest rate risks, credit risk both in respect of investments and reinsurer insolvency and reinsurance assets. Tawa adopts an approach to investments that seeks to control its exposure to investment risk.

Tawa also assesses potential internal synergies, establishes a strategy to settle the liabilities, sets key performance targets to monitor progress, and develops strategies for releasing surplus capital and for terminating the run-off at the appropriate stage.

Accelerating the run-off process

A fundamental aspect of Tawa's business strategy is to complete or close the run-off as soon as possible. Other run-off operators have different strategies. Tawa's strategy of accelerating a run-off requires a balance between (i) effective claims management, (ii) commutations and (iii) maximising reinsurance recoveries.

(i) The management of claims involves a review process to allow close scrutiny of material claims. Once a review has been conducted a decision can be taken as to whether the claim is valid and warrants payment.

(ii) Commutation is key to the success of Tawa's accelerated run-off business plan. Tawa's approach is a project-based, multi-skilled process which requires suitable IT support and close and prudent management. Tawa is able to profile, analyse, price, negotiate and execute successful commutations because of the skills and experience of its employees, and through its commutation support system, methodology and process. Over the last three years, Tawa has completed over 200 commutation transactions.

Commutations provide an opportunity for Tawa to terminate exposures to certain policies and insureds and thus eliminate exposure to further losses. Such a strategy also reduces both the length of time and future cost of the run-off. Further, it eliminates the regulatory risk margin associated with commuted claims thereby increasing surplus capital as a precursor to the extraction of such capital.

To commute policies, Tawa will analyse the underlying liabilities and related policy terms to determine the viability of a proposed commutation. From the initial analysis of the underlying liabilities it may take several months, or possibly years, before a commutation is completed, including a reconciliation between Tawa's data and the policyholder's data. If Tawa and the policyholder are unable to reach a commercially acceptable settlement, a commutation may not be achievable, in which case those accounts will be run-off in the ordinary course of business.

Insureds are often willing to commute to eliminate uncertainty over claims recoverability. Many sellers of companies that Tawa may acquire have secure ratings and ongoing underwriting relationships with insureds which Tawa believes constrain those companies' ability to manage claims and to commute the underlying insurance policies. Tawa believes that having no rating and no underwriting conflicts enables claims to be assessed only on their merits and facilitates commutations.

(iii) Outwards reinsurance is often a material asset that most run-offs must effectively maximise. Many factors influence the recovery of reinsurance, including the type and terms of the reinsurance contracts, the way the reinsurance responds to claims on and commutations of the underlying policies, the creditworthiness of the reinsurer, the company's ability to set off outwards reinsurance collections against inwards claims from the same counterparty and the willingness of the reinsurer to pay the claim. Accordingly Tawa will set targets for collections which will be continually monitored during the run-off.

Exit strategy

Following the successful reduction of a run-off's liabilities, Tawa will aim to extract any surplus capital and bring closure to each run-off entity at the appropriate time. In the next two to three years CX Re and KX Re may present opportunities for extracting surplus capital by making use of capital reduction techniques. Tawa would seek the necessary regulatory consent for capital reductions once appropriate provision had been made for insurance liabilities. In addition, when the size and volatility of the residual portfolio had reduced significantly, Tawa would consider final exit strategies, including reinsurance, Part VII transfers, global commutations by way of a scheme of arrangement and sale.

Senior members of Tawa's staff have been at the forefront of creating suitable exit strategies now commonly used in the UK run-off market, in particular, the use of schemes of arrangement to finalise all the insurers' claims.

Flexible business model

Run-offs may have either high or low net assets (capitalisation) relative to liabilities, and the Tawa business model can be adapted to address either scenario. CX Re and KX Re demonstrate this flexibility.

- **Low Capitalisation Model** (for example CX Re) – A small investment (relative to the net assets of the target) is required at the time of the acquisition, as the entity has a higher volatility of reserves resulting in a higher risk of not being able to meet ongoing regulatory capital requirements. Tawa generates value by reducing the volatility of reserves through focused claims management and commutations. The most likely method for returning surplus capital will be through capital reduction. The typical post tax ROIC that Tawa prices into such an acquisition is in excess of 25 per cent.

- **High Capitalisation Model** (for example KX Re) – A material investment (relative to the net assets of the target) is required at the time of the acquisition as the risk of reserve deterioration is less likely than under the low capitalisation model. The focus of the run-off plan is to protect the balance sheet from deterioration, making commutation profits and exiting at the appropriate stage so as to realise the discount to NAV by saving run-off costs. Once the portfolio has been descaled sufficiently the surplus regulatory capital, if any, will be realised through one or more capital reductions followed by a scheme of arrangement to terminate the run-off. The typical post tax ROIC that Tawa prices into such an acquisition is in excess of 15 per cent. on an ungeared basis.

  There can be no assurance that the above target levels of ROIC will be achieved and they must be read in conjunction with the risk factors set out in Part III of this document.

7. Competitive Strengths

The Directors believe that the Group's combination of competitive strengths will continue to enable it to take advantage of opportunities that exist in the run-off market. These strengths include:

- **Brand** – Tawa's brand as a run-off acquirer and operator is reflected in the number of invitations it has received to bid for or manage run-offs.

- **Acquisitions** – Several members of Tawa's senior management team have substantial acquisition experience. Most importantly, they have the skills in-house necessary to acquire run-offs including acquisition targeting, financial modelling, deal pricing including actuarial, due diligence, negotiation and integration planning. The Directors believe that the acquisitions of CX Re and KX Re demonstrate Tawa's ability in this area.

- **Run-off skills:**

  - **Run-off management** – The proactive management of claims liabilities and reinsurance assets together with a focused commutations programme are designed to maximise the value released in a run-off. Tawa has the key skills relating to claims evaluation and management, reinsurance collections, forensic claims review, actuarial analysis and litigation support.

  - **Accelerating the run-off** – Tawa has developed a successful commutations capability built on its own managers' experience. Profiling, analysing, pricing, negotiating and processing commutations are delivered through the skills and experience of the Group's staff, together with its commutations support system, methodology and process.

  - **Asset and liability management (ALM)** – In order to minimise the capital allocated to covering risks other than insurance risk; market, currency and credit risk are controlled by the run-off's ALM strategy. Tawa's operational model is to minimise foreign exchange exposures subject to operational considerations. The asset portfolio is held primarily in fixed income and near-cash products with maturities over the expected payment periods of the liabilities and in the currencies of the liabilities. The Group outsources its investment management to Blackrock Financial Management Inc. The investment mandate, which is summarised in paragraph 20 of Part VII of this document, sets the investment manager a target of 50 basis points above the risk free rate.

  - **Actuarial analysis** – Tawa's actuarial team has a depth and breadth of experience across a wide range of insurance liabilities and has experience in acquisitions, reserve analysis (including stochastic analysis), deal pricing, commutation pricing and negotiations.

- **Change management** – Tawa has extensive experience in managing people, processes and systems to improve performance, efficiencies and effectiveness in response to changing business needs. Much of the work is project-based and process-led using multi-disciplinary teams. Tawa has successfully integrated personnel acquired along with the acquisitions of run-off business.

8. Competition

The run-off market is competitive with participants generally falling into two categories: industry players, such as major insurance groups and specialist run-off managers, and non-industry players, such as hedge funds. Examples of specific competitors are Berkshire Hathaway Inc and The Enstar Group Inc. The Directors believe that, for the reasons set out in paragraph 7 above, Tawa is well positioned to acquire run-offs successfully in this competitive environment. Furthermore, the Directors believe that, following Admission, the ability to use equity as an acquisition currency will further enhance Tawa's acquisition capability.

9. Summary of Historic Trading

This information should be read in conjunction with the financial information set out in Part IV of this document and you should not rely only on this summarised information.

Historically CX Re has been the principal driver of value for Tawa and the table below indicates that Tawa generated $181 million of value in CX Re from the date of acquisition to 31 December 2006. After taking into account management charges and increases in total operating expense, Tawa generated an operating surplus of $139 million. Over the same period the net discounted reserves of $1.7 billion as at 31 December 2002 deteriorated by $181 million. When Tawa acquired CX Re and after injecting approximately a further $21 million of capital, CX Re had net assets of $140 million. After taking into account the reserve deterioration and the operating surplus, the net assets of CX Re are stated as $98 million at 31 December 2006. Tawa paid $25 million in all for these assets and has earned a value added management fee of $5 million a year for running the portfolio. As set out in paragraph 4 of this Part II, the majority of the equity in CX Re was sold to a consortium on 21 March 2006 and subsequent to that date has been equity accounted by Tawa.

CX Re summary financial information	*Year ended 31 December*				
($ Millions)	*2003*	*2004*	*2005*	*2006*	*Total*
Commutation profits	20	41	30	23	114
Investment returns in excess of risk free rate	12	(3)	6	5	20
Tax loss realisation	–	–	–	47	47
Value generated by run-off	32	38	36	75	181
Run-off fee (Tawa Management)	(5)	(5)	(5)	(5)	(20)
Increases in total operating expense	(2)	(6)	(6)	(8)	(22)
Operating surplus	25	27	25	62	139
Net assets acquired					119
Capital injected on acquisition					21
Net claims development					(181)
"Adjusted" net assets acquired					(41)
Operating surplus					139
Net assets (31 December 2006)					98

(Source: Unaudited Company Analysis)

10. Pro-forma Statement of Net Assets

The unaudited pro-forma statement of net assets, which reflects net assets of $234.1 million as if the Placing, Subscription and the acquisition of KX Re had taken place on 31 December 2006, is set out in Part V of this document.

11. Current Trading and Prospects

The Groups results are principally affected by the operations of the insurance carriers (CX Re and KX Re) and Tawa Management. To the extent that the insurance carriers' claims performance (net of reinsurance) is better than expected, a profit can be recognised in the insurance carriers. Conversely, to the extent that claims deteriorate (net of reinsurance), net assets will be diminished. Where possible, management endeavour to commute liabilities to create embedded value. Typically commutations are more prevalent towards the second half of the year. Tawa Management receives fees from the insurance carriers for managing the run-offs, and fees from third party consulting. Tawa incurs costs in investigating the feasibility of acquiring new run-off opportunities and corporate overheads. For successful acquisitions, acquisition costs are capitalised and to the extent that acquisitions (if any) are made at a discount to net assets the discount will be recognised as profit on completion. The Directors believe that the market for acquisitions continues to be positive and the Board would be most disappointed if at least one additional insurance business was not acquired within two years from Admission.

CX Re

On 1 January 2007 a Part VII transfer became effective, which transferred $74m of liabilities and matching reinsurance assets from CX Re to CNA Insurance Company Limited. Whilst this has no effect on the net assets of CX Re, the transfer eliminated any credit risk on the associated reinsurance assets. CX Re's commutation programme has continued since the year end and expectations for embedded value creation for 2007 have not changed. With respect to items affecting CX Re, other than commutations, since 31 December 2006 deterioration in reserving has been broadly set off by improvements to other items.

KX Re

The acquisition of KX Re was completed on 4 May 2007. Management accounts for the period from 31 December 2006 to the completion date show a break even position. The KX Re accelerated run-off strategy is commencing with the integration of the management processes following completion. Tawa Management will utilise the same techniques used on CX Re to descale the balance sheet.

Tawa Management

Tawa Management's trading for the first half of 2007 is in line with management's expectations. Tawa has recently strengthened the third party consulting business by recruiting two asbestos experts from the London market which should have a positive although modest impact on Tawa Management revenue from the third party consulting business.

12. Restructuring of Share Capital

As part of a process to simplify the share structure of the Company, the Company, Tawa Associates, Financière Pinault, C. Bird, D. Vaughan, E. Rosenstiehl, G. Erulin, G. Pagniez, M. Mohn and B. McConnell (the "Executives") entered into a Reorganisation Deed on 28 June 2007 (details of which are set out in paragraph 19.3 of Part VII of this document). Under the terms of the Reorganisation Deed, Financière Pinault acquired the Deferred Shares owned by each of the Executives in excess of 110 Deferred Shares. Conditional upon Admission the Deferred Shares will be redesignated as Ordinary Shares. Immediately after Admission the Company will have an authorised share capital of 200,000,000 Ordinary Shares and an issued share capital of 101,891,017 Ordinary Shares, including the shares that are issued under the Placing and the Subscriptions. Further information on the restructuring of the share capital of the Company in preparation for Admission is set out in paragraph 3.14 of Part VII of this document.

13. Directors and Senior Management

Details of the Directors, their roles and their backgrounds are as follows:

Executive Directors

Gilles Erulin (Age 47), Chief Executive Officer

Gilles Erulin has been Global Head of Insurance for Groupe Artémis since 2000 and previously headed its Merger and Acquisitions Group. He was responsible for the creation in 2001 of Tawa. Gilles managed the acquisition of Aoba (Japan) by Groupe Artémis, the first life insurance company ever acquired 100 per cent. by overseas investors in Japan, and supervised that company's run-off strategy from 1999. He managed the sale of Aoba (Japan) in September 2004 to Prudential Life of Japan. Amongst numerous other transactions within the Financière Pinault group, Gilles also managed the take-over of Christie International plc, which involved the raising of £780 million of financing. Gilles is an FSA approved person. He was appointed to the Board of Tawa in April 2001.

Colin Bird (Age 57), Chief Financial Officer and Chief Executive Officer of CX Re and KX Re

Colin Bird left PwC in 2001 to form the Tawa Group with financial backing from Groupe Artémis. Colin was previously the Financial Services Leader and Head of Risk Management for the Global Financial Advisory Services division of PwC, a member of its Global Insurance Leadership Team and an elected member of the firm's Global and UK Supervisory Boards. Colin worked at PwC for 33 years (20 years as a partner), mainly in financial services with particular emphasis on the insurance and banking industries. For many years Colin was a leading corporate recovery specialist, based in London, undertaking restructuring assignments for a variety of financial services clients in the UK, US and Far East including distressed banks and insurance companies as well as acting as inspector of a number of banks for the regulatory authorities. Colin is responsible for the Tawa insurance companies, being the CEO of both CX Re and KX Re. In that role he handles their relationships with the regulators, the boards and the manager. Colin was re-appointed to the Board of Tawa on 28 June 2007 having previously been on the Board at Tawa between May 2001 and June 2005.

Colin has agreed to act as an Executive Director for as long as required by the Company in addition to his role as CEO of both the insurance carriers, CX Re and KX Re. However, it is expected that he will step down from the Board within 2 years following Admission, once a successor has been appointed who will carry out the role of CFO. This will allow him to focus on his role as CEO of the insurance carriers.

David Vaughan (Age 51), Chief Operating Officer and Chief Executive Officer of Tawa Management

David Vaughan was a partner in the Insurance Business Restructuring Services Group of PwC prior to joining Tawa in 2001, where he focussed on acquisitions, exit routes, operational effectiveness, particularly claims, reinsurance and commutations. David's current focus is on targeting acquisition opportunities and creating value from Tawa's run-offs. David has specialised in the insurance and reinsurance industry since 1987; as a result, he has extensive experience in advising participants in the insurance industry including underwriters, brokers, underwriting pools and life companies. David has advised run-offs on exit routes (including sale, reinsurance and solvent schemes), run-off strategy (advice, set-up and operational assistance), financial restructuring and effectiveness reviews (especially run-off administration), support on reinsurance disputes, and insolvency advice and appointments. David was appointed to the Board on 28 June 2007.

Non-executive Directors

Robin Jackson (Age 71), Chairman and Independent Non-executive Director

Robin Jackson joined the Board of Tawa in February 2002. In the last 20 years Robin has been chairman of a number of companies and panels including the London Market Asbestos Working Party from 1984-1996 co-ordinating London markets response to asbestos; London Market Claims Services Ltd from 1988-1998; CentreWrite Ltd from 1992-1994; R.F. Bailey (Underwriting Agencies) from 1992-1999 and from 2001-2003; and the Specialist Claims Unit at Lloyd's. Robin has also been a member of the Equitas Project Core

Reserve group at Lloyd's and a non-executive director of the Lloyd's managing agency Newline Syndicate Management Ltd. Robin is currently non-executive chairman of Marketform Managing Agency Ltd at Lloyd's. He has also been appointed as an arbitrator in reinsurance disputes in the UK, US and Australia.

Anthony Hamilton (Age 65), Independent Non-executive Director

Anthony Hamilton joined the Board in March 2004 having previously been on the board of CX Re. Mr. Hamilton began his business career in the City of London and in New York where he worked for the investment banks Schroders and then Morgan Grenfell. In 1978 he joined the investment bank Fox-Pitt, Kelton ("FPK"). He was a principal shareholder and served as Executive Chairman of FPK from 1994 until 2003. FPK was acquired by Swiss Re in March 1999. Mr. Hamilton retired from his executive responsibilities at FPK in 2004 and as a director of Swiss Re Capital Markets Limited in 2006. During his time at FPK he served on the boards of a number of insurance companies.

Mr. Hamilton has been a director of AXA Equity and Law plc since 1993 and Chairman since 1995. In 2000 he was appointed Chairman of AXA UK plc, the holding company of AXA's UK insurance interests. Since 1995, Mr Hamilton has been a member of the Supervisory Board of AXA Paris and of the AXA Remuneration Committee. In 2007 he was appointed Chairman of the AXA Group Audit Committee; he also serves on the Board of Directors of AXA Financial Inc. New York. From 2000 to 2006 Mr. Hamilton served on the board of PPR in Paris and as a member of the Audit Committee. He is also currently a member of the board of governors of Club de Golf Valderrama.

John Hendrickson (Age 47), Independent Non-executive Director

John Hendrickson joined the Board on 28 June 2007. John is Founder and Managing Partner of SFRi LLC, an independent investment and advisory firm that focuses exclusively on the insurance industry. From 1995-2004, he held various management positions within Swiss Re Capital Partners, and also served as a Member of Swiss Re Capital Partner's Executive Board. From 1985-1995, John was with Smith Barney, the US investment banking firm, where he focused on the insurance sector. John has served as a director for several insurance and financial services companies.

Patricia Barbizet (Age 52), Non-executive Director

Patricia Barbizet joined the Board in April 2001. Patricia was a senior financial executive in the Renault Group before her appointment as Chief Financial Officer at Financière Pinault group in 1989. She has been a Director and Chief Executive of Financière Pinault since 1992 and Chairman of the Supervisory Board of the PPR since 2002. She has also been the Vice Chairman and director of the Board of PPR since May 2005. Patricia is currently Chairman and CEO of Piasa, a director of Société Nouvelle du théâtre de Marigny, the Chairman of Christies International Plc and a director of TF1, Fnac SA and Air France. She is also a member of the Supervisory Board of Gucci Group NV and Yves Saint-Laurent Couture and a member of the Management Board of SC du Vignoble de Château Latour.

Gilles Pagniez (Age 41), Non-executive Director

Gilles Pagniez has served on the Board since February 2004 having previously been on the Board from February 2002 to April 2003. He is also a member of the CX Re and the KX Re board. Gilles has been the General Counsel of Groupe Artémis since 1996 and also is a director on a number of boards of companies as the Groupe Artémis representative. Gilles has been involved in numerous M&A transactions on behalf of Groupe Artémis such as the take-over of Christies International plc in 1998, the acquisition in 1999 of Aoba (Japan), a Japanese run-off life insurance company, and its sale to Prudential Life of Japan in 2004 and the negotiation of the acquisition of Yves Saint Laurent on behalf of Gucci Group NV.

Loïc Brivezac (Age 43), Non-executive Director

Loïc Brivezac joined the Board on 28 June 2007. Loïc joined Financière Pinault in September 1999, first as an accounting manager and then, from January 2006, as the financial controller manager. Prior to joining Financière Pinault, Loïc was an auditor at Adexi SA from 1990-1997 and an accounting manager at Capri Enterprises SNC (Real Estate) from 1997-1999. Loïc is currently a director of Stade Rennais football club.

Senior Management

Details of the senior management are as follows:

Janet Collins (Age 52), Head of Human Resources

Janet Collins joined Tawa from PwC in 2002 to manage the change to run-off for CX Re. She has over 20 years experience in supporting organisations and people to develop and deliver in changing circumstances, having designed and delivered many strategic change projects. Janet's experience includes establishing and leading a centre of excellence for managing the HR implications of mergers, acquisitions, and spin-offs for PwC and its clients. She has an MA in Strategic Human Resource Development and Change and is a Member of the Chartered Institute of Personnel and Development.

Bill McConnell (Age 53), Chief Actuary

Bill McConnell joined Tawa in June 2002 and has nearly 30 years of actuarial experience in the financial-services industry covering a wide variety of fields. He was Chief Actuary for a leading managing agent before leaving and becoming the first Lloyd's Actuary. Bill was the corporate general insurance actuary for Guardian Royal Exchange Group Limited where he was responsible for ensuring that the reserving standards of the group met certain minimum requirements. He was also responsible for reporting to the executive committee on the reserves and underlying volatility of those reserves for the group. While working on the life side he became a member of a committee that was charged with the responsibility for redrafting the SORP on Accounting for Life Profits. Bill is a Fellow of the Institute of Actuaries and during his career he has worked on a number of M&A transactions.

Marvin Mohn (Age 42), General Counsel

Marvin Mohn joined Tawa in 2001 and is General Counsel for Tawa, Tawa Management, CX Re, and KX Re. Before joining Tawa, he was with PwC for 18 months, prior to which he worked as an attorney specialising in insurance and reinsurance matters with Chadbourne & Parke, LLP. Marvin's experience centres on insurance regulatory, transactional, and litigation matters including e-commerce issues, insurance insolvency, reinsurance and insurance coverage disputes, licensing of companies and agents, surplus-lines regulation, captive insurers, and service contracts. Marvin is a Member of State Bar of California and received a J.D. cum laude from the University of California, Hastings College of Law in 1991.

Steve Street (Age 46), Head of Commutations

Steve Street joined Tawa in 2003 and has over 25 years of experience in insurance and reinsurance. His career commenced in the late 70's at Marsh where he held various claims positions and placed international reinsurance business into the London Market. In 1987 he became a divisional director at Aon, heading up the International Reinsurance Claims Division and was promoted to director in 1989. During 1995 he joined Aon's newly created Claims Consultancy Division as a senior director responsible for business development and international clients. In 1998, Steve joined CNA Global Resource Managers (GRM) as senior vice president and director for claims and reinsurance. In 2001 he was promoted to managing director, joining the boards of the various companies managed by GRM. It was at GRM that Steve initiated the first solvent scheme for a pool of companies.

14. Corporate Governance

The Directors support high standards of corporate governance and the Company intends to comply, so far as it considers practicable and appropriate, with the Combined Code having regard to the Group's size and nature of its business. The Board will be responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and acquisitions.

Board composition and committees

On Admission, the Company will have three independent non-executive Directors: Robin Jackson, Anthony Hamilton and John Hendrickson. The Board will exercise control of certain key functions through formal committees which will meet periodically to monitor specific operational functions of the Company's and the

Group's business. The Company has established an Audit Committee, a Remuneration Committee and a Nomination Committee.

The Audit Committee consists of John Hendrickson (Chair), Robin Jackson and Loïc Brivezac. It will meet at least twice a year and be responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for reviewing the auditor's reports relating to accounts and internal control systems. It will also review quarterly any transactions between the Group, any of their respective associates or affiliates and certain other third parties.

The Remuneration Committee consists of Gilles Pagniez (Chair), John Hendrickson and Robin Jackson. It will meet at least twice a year and be responsible for determining and agreeing with the Board the framework for the remuneration of the Chief Executive Officer, all other Executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each director including, where appropriate, bonuses, incentive payments and share options. The Remuneration Committee will also liaise with the Nomination Committee to ensure that the remuneration of newly appointed Executives is within the Company's overall policy.

The Nomination Committee consists of Patricia Barbizet (Chair) and Anthony Hamilton. It will meet at least once a year and be responsible for reviewing the structure, size and composition of the Board, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise.

The Company has adopted a share dealing code for Directors and relevant employees and will take all reasonable steps to ensure compliance by the Directors and those employees.

15. Reasons for Admission and details of the Placing and the Subscription

The Directors believe that Tawa will be the first non-life run-off consolidator to be listed in the UK, and that Admission will be beneficial for Tawa, as it will enable Tawa to use equity as a currency for future acquisitions and to conduct secondary fundraisings through the placing of further equity. In addition, Admission is expected to enhance Tawa's credibility in the market and increase awareness of its brand. The Directors also consider that the recruitment, retention and incentivisation of key staff through the use of share based incentives will be important to the Group's continued development.

KBC Peel Hunt, as agent for the Company, has conditionally placed 16,000,000 new Ordinary Shares with investors at the Placing Price. The Placing, which is not underwritten by KBC Peel Hunt, is conditional, *inter alia*, upon the admission of the Company's Ordinary Shares to trading on AIM by 8.00 a.m. on 26 July 2007, or such later date as KBC Peel Hunt and the Company agree (being no later than 5.00 p.m. on 1 August 2007). The Placing is intended to raise approximately £20.0 million for the Company, before expenses (£17.0 million after expenses). Approximately $20 million (approximately £9.8 million at the date hereof) will be used to partially repay a bridge loan from Financière Pinault for the acquisition of KX Re which was advanced to the Company on 3 May 2007. The remaining proceeds of approximately £7.2 million (after expenses) will be used to provide working capital.

Conditional on Admission, Financière Pinault has agreed to convert the balance of the bridge loan facility for the acquisition of KX Re (approximately $15 million) into Ordinary Shares at the Placing Price pursuant to the Subscription Agreement.

It is expected that the proceeds of the Placing will be received by the Company on 26 July 2007. It is expected that the appropriate CREST stock accounts of placees will be credited with the Placing Shares comprising their Placing participation with effect from Admission. In the case of placees requesting Placing Shares in certificated form, it is expected that certificates in respect of the Placing Shares will be despatched by post, within 14 days of the date of Admission. Pending despatch of share certificates or crediting of CREST accounts, the Company's registrar will certify any instruments of transfer against the register.

Further details of the Placing Agreement are set out in paragraph 19.1 of Part VII of this document.

16. Controlling Shareholder

Immediately following Admission, 79.0 per cent. of the Company's issued Ordinary Shares will be beneficially owned by Financière Pinault. The Directors believe that the involvement of Financière Pinault in its operations has been important in the pursuit and implementation of its strategy. However, Financière Pinault and the Directors expect that the future growth of Tawa through acquisitions and further issues of equity may result in a dilution of Financière Pinault's shareholding over time.

The Company has entered into a Relationship Deed with Financière Pinault which regulates their relationship after Admission and the terms of which are set out in paragraph 19.2 of Part VII. Other related party agreements with Financière Pinault are set out in paragraph 18 of Part VII of this document.

17. Lock-in arrangements

Following Admission, the Directors and Financière Pinault have each agreed that they will not dispose of any interests in the Company's share capital for a period of one year from Admission except in certain strictly limited circumstances. Furthermore, Financière Pinault and the Directors have each agreed for a further period of a year not to make any such disposal except with KBC's consent with a view of managing an orderly market.

18. The Panel on Takeovers and Mergers and the application of the City Code on Takeovers and Mergers

As noted in paragraph 16 above, Financière Pinault will hold 80,491,017 Ordinary Shares on Admission representing 79.0 per cent. of the total voting share capital of the Company in issue an at such time. As such, Financière Pinault will have the right, as described below, to acquire and/or to continue to acquire Ordinary Shares in the Company without incurring an obligation under Rule 9 of the Code (as described below) to make a general offer.

The Panel is an independent body, whose main functions are to issue and administer the City Code on Takeovers and Mergers (the "Code") and to supervise and regulate takeovers and other matters to which the Code applies in accordance with the general principles and rules set out in the Code. The Code applies to all offers for public companies (and certain other related transactions and entities), which, *inter alia*, have their registered offices in the UK, the Channel Islands or the Isle of Man and which are considered by the Panel to have their place of central management and control in the UK, the Channel Islands or the Isle of Man. At the date of this document, the Code will, therefore, apply to the Company and certain dealings in its shares. The Code also applies to a range of persons who participate in, or are connected with, or who in any way seek to influence, intervene in, or benefit from, takeovers or other matters to which the Code applies. A copy of the Code can be obtained at www.thetakeoverpanel.org.uk and further guidance on the Code can be sought, if required, by telephoning the Panel on +44 (0) 207 382 9026.

Amongst other provisions in the Code which may be relevant to the Company, prospective investors and other third parties, under Rule 9 of the Code, where (i) any person, or group of persons acting in concert, acquires, whether by a series of transactions over a period of time or not, an interest in shares which taken together with shares in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Code, or (ii) any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increase the percentage of the shares carrying voting rights in which he is interested, such person or persons are normally required by the Panel to make a general offer, in cash, to all the shareholders of the company, to acquire the remaining equity and voting shares in the company, at not less than the highest price paid by him or any persons acting in concert with him, for the acquisition of an interest, within the twelve months prior to the announcement of the offer. Rule 9 of the Code is subject to a very limited number of dispensations.

Where a person holds shares carrying more than 50 per cent. of the voting rights of a company to which the Code applies, he will have the right, so long as his shareholding continues to represent over 50 per cent. of the voting rights of the company, to increase his shareholding and, thereby, his percentage of the voting rights in the company, without incurring any further obligation under Rule 9 of the Code to make a general offer.

19. Share Incentive Arrangements

The Company has established two employees' share schemes – the Tawa 2007 Performance Share Plan and the Tawa 2007 Deferred Share Bonus Plan.

The Performance Share Plan provides for the grant of conditional awards over Ordinary Shares. Awards to executive directors of the Company will normally vest on the third anniversary of the date of grant, subject to the satisfaction of performance conditions and provided that on vesting (or on such other date determined by the Remuneration Committee on or prior to the grant of an award) the participant is employed by, or is a director of, a company in the Company's group (subject to certain "good leaver" exceptions).

The Deferred Share Bonus Plan allows the Company to defer a portion of an employee's bonus into a conditional award over Ordinary Shares with an aggregate market value on grant equivalent to the value of the deferred bonus. The Remuneration Committee of the board of Directors of the Company shall have the flexibility to determine when an award vests and, where there is more than one vesting date, the proportion of shares that will vest. For initial awards, it is intended that one-half of an award will vest on the first anniversary of the date of grant and the other half will vest on the second anniversary of the date of grant, provided that on vesting the participant is employed by, or is a director of, a company in the Company's group (subject to certain "good leaver" exceptions).

Awards may be granted under the Share Plans over new issue Ordinary Shares, Ordinary Shares held in treasury or Ordinary Shares purchased in the market. In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent. of the issued ordinary share capital of the Company under the Share Plans and any other employee share plan adopted by the Company. However, Ordinary Shares issued or issuable pursuant to awards granted under the Share Plans either on or before the date of Admission (see below) will not count toward the 10 per cent. in ten year limit.

In addition to the Share Plans the Company has established an employees' benefit trust. The trust is a discretionary trust and has been established for the benefit of employees and former employees of the Group and certain of their dependents. The main purpose of the trust is to satisfy awards granted under the Share Plans. The trust may subscribe for new Ordinary Shares in the Company; however, the trust may not hold more than 5 per cent. of the issued Ordinary Shares of the Company at any time (excluding Ordinary Shares it holds as nominee) without prior shareholder approval.

The principal features of the Share Plans and the Employee Benefit Trust are set out in paragraph 7 of Part VII.

Awards to be granted under the Performance Share Plan on the date of Admission

The Board has agreed that immediately prior to, but conditional upon, Admission, discretionary cash bonuses will be awarded to eight senior executives within the Group (none of whom are Executive Directors). The total aggregate value of the bonuses to be paid is equal to £450,000 (before tax). Each bonus will be awarded on the condition that on Admission the employee agrees to use a portion of his or her net bonus and acquire Ordinary Shares with a value on acquisition worth one-third of the gross bonus paid. In return the Company will, on the date of Admission, grant each employee an award under the Performance Share Plan over Ordinary Shares with a value on grant (see below) worth 50 per cent. of the amount invested (i.e. awards over Ordinary Shares with a total aggregate value on grant equal to £75,000 will be granted to these employees). The awards will not be subject to any performance conditions and will normally vest on the second anniversary of the date of Admission, subject to the employee being an employee or director within the Company's group on that date and to the extent that the Ordinary Shares acquired on Admission have been retained.

In addition to the above, the Board has agreed that each employee (excluding Executive Directors and senior managers) in the Group immediately prior to the date of Admission (74 employees) will be granted an award under the Performance Share Plan on the date of Admission over Ordinary Shares with a value on grant (see below) worth up to £3,000. These awards will not be subject to any performance conditions and will normally vest on the second anniversary of the date of Admission, subject to the employee being an employee or director within the Company's group on that date.

Finally, it has been agreed that on the date of Admission awards will be granted under the Performance Share Plan to certain selected employees within the Group over Ordinary Shares that will have a total aggregate value on grant no greater than £1,924,000, of which, awards over Ordinary Shares with a value on grant no greater than £1,066,000 will be made to the Executive Directors. All of these awards will normally vest on the third anniversary of the date of Admission, subject to the satisfaction of performance conditions (see paragraphs 7.1.9 to 7.1.13 of Part VII) and the employee being either an employee or director within the Company's group on that date (except in the case of an award granted to Gilles Erulin, who will be required to be an employee or director within the Company's group on 30 March 2010).

For the purposes of determining the number of Ordinary Shares over which an award is granted under the Performance Share Plan on or prior to the date of Admission, the value of an Ordinary Share will be equal to the Placing Price.

20. Regulatory

Information regarding regulation of the Group is set out in Part VI of this document.

21. Controller Provisions

Prospective Shareholders in the Company should note that the prior consent of the FSA and the BMA will be required for any person, either alone or with their associates, *inter alia*, to hold 10 per cent. or more of the Company's issued Ordinary Shares, as such Shareholders will then be regarded as a controller of KX Re and Tawa Bermuda. Upon Tawa Management's authorisation by the FSA as an insurance intermediary, any person, either alone or with their associates, *inter alia*, holding 20 per cent. or more of the Company's issued Ordinary Shares will be regarded as a controller of Tawa Management and the consent of the FSA will be required prior to Tawa Management's authorisation being obtained (if such shares were acquired before Tawa Management's authorisation is obtained) or before such an acquisition (if such shares are acquired after Tawa Management's authorisation is obtained).

In order to obtain such consent from the FSA, the prospective Shareholder will be required to provide information to the FSA and may be required to give the FSA certain undertakings. If a Shareholder fails to obtain such consent, yet acquires a stake of 10 per cent. or more of the Company's issued Ordinary Shares or the right to exercise 10 per cent. or more of the voting power in the Company (note that in respect of Tawa Management, the relevant threshold is 20 per cent.), then the FSA may impose restrictions on the relevant regulated company (KX Re and/or Tawa Management), such as the restriction on the payment of dividends or the exercise of voting rights and/or seek a court order for the sale of the shares controlled (directly or indirectly) by that Shareholder. Furthermore, such Shareholder will be guilty of a criminal offence under section 191 of FSMA.

Tawa Bermuda is required to give written notice to the BMA of the fact that any person has become or ceased to become a controller of Tawa Bermuda. The term "controller" is defined in the Bermuda Insurance Act to include (a) any person who holds ten per cent or more of the shares carrying rights to vote at a general meeting of Tawa Bermuda, its parent company (Tawa Management) or the Company or (b) if such person is able to exercise a significant influence over the management of Tawa Bermuda, its parent company (Tawa Management) or the Company by virtue of a holding of shares or an entitlement to exercise or control the exercise of the voting power of the general meeting of Tawa Bermuda or the Company. The BMA may, by written notice, object to a person being a controller of any description if it appears to the BMA that the person is not or is no longer fit and proper to be such a controller. The BMA may require the controller to reduce its holding of Ordinary Shares in the Company or require the Company to direct Tawa Management that the relevant voting rights attaching to the shares in Tawa Bermuda held by the controller are not exercisable. A person that does not comply with such a notice or direction from the BMA will be guilty of an offence.

22. Dividend Policy

In the absence of unforeseen circumstances and subject to there being sufficient distributable reserves, the Directors intend to pay a dividend, in early 2008, reflecting a vast majority of the net earnings of Tawa Management for 2007. For reference purposes only, Tawa Management net earnings for 2006 were £2.0 million.

The Directors intend that funds generated by the Group from cash extracted from run-offs will either be re-invested in the development of the business and further acquisitions or may be paid to shareholders in the form of special dividends.

All dividends will be subject to the future financial performance of the Group including results of operations and cash flows, the Group's financial position and capital requirements, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends and any other factors the Directors deem relevant in their discretion, which will be taken into account at the time.

23. Taxation

Information regarding United Kingdom taxation is set out in paragraph 9 of Part VII. If you are in any doubt as to your tax position you should contact your professional adviser immediately.

24. Further Information

Your attention is drawn to the additional information in Parts III to VII of this document.

PART III

RISK FACTORS

Potential investors should carefully consider the risks described below, in the light of the information in this document and their personal circumstances, before making any decision to invest in the Company. The risks and uncertainties described below are not the only ones facing the Group and are not intended to be presented in any assumed order of priority. Additional risks and uncertainties not presently known or risks that are currently deemed immaterial may also impair the Group's business operations. If any of the risks described should actually occur, a significant or material adverse effect on the Group's business, results of operations and/or financial condition could occur and the Company could be materially affected. In such circumstances, the price of the Ordinary Shares may fall and potential investors could lose all or part of their investment.

An investment in the Ordinary Shares described in this document is speculative. Potential investors are accordingly advised to consult a person authorised for the purposes of the FSMA who specialises in advising on investments of this kind before making any investment decisions. Potential investors should therefore consider carefully whether investment in the Group is suitable for them, in light of the risk factors outlined below, their personal circumstances and the financial resources available to them.

References in the following Risk Factors to "insurance" shall (save where the context otherwise requires) be deemed to include reinsurance.

1. Risks relating to the Group and its industry

1.1 *Influence of significant shareholders*

Upon completion of the Placing, Financière Pinault will beneficially own approximately 79.0 per cent. of the Ordinary Shares. As a result, Financière Pinault could exercise significant influence over matters requiring shareholder approval, which, amongst other things, could delay or prevent an outside party from acquiring or merging with the Group, which may reduce the market price of the Company's Ordinary Shares. The Company has entered into a Relationship Deed with Financière Pinault which regulates their relationship after Admission and the terms of which are set out in paragraph 19.2 of Part VII. Other related party agreements with Financière Pinault are set out in paragraph 18 of Part VII of this document.

1.2 *Risks relating to the CX Re Reorganisation*

On 21 March 2006 Tawa disposed of 87.35 per cent. of the "A" Shares (carrying the economic rights) of CX Re and 50.05 per cent. of the "B" Shares (carrying the voting rights) of CX Re to two financial institutions and other purchasers for an initial consideration from each purchaser with further amounts being payable to Tawa, referenced to future distributions from CX Re to its shareholders. Such distributions would be enhanced by the successful offset of CX Re's tax losses by the shareholders against their respective taxable profits. This transaction created $47 million of value for the Group, which is included in the deferred assets at 31 December 2006. The $47 million proceeds will not be released to the Group until the claiming companies agree their tax returns for the relevant periods with HMRC. Should the losses not finally be available to the claiming companies, the proceeds would accrue for the benefit of the claiming companies and the deferred amounts receivable by the Group would reduce accordingly.

As a result of the CX Re reorganisation described in paragraph 1.1 above and in further detail in paragraph 21 of Part VII, Tawa holds 49.95 per cent. of the voting "B" shares in CX Re; each of two financial institutions hold 19.98 per cent. of the voting "B" shares in CX Re and the balance of 10.09 per cent. is held equally by Paul Jardine and Philip Marcell (both of whom are board directors of CX Re). As such, Tawa does not have the right to control CX Re and would not, accordingly, be able to pass ordinary or special resolutions as a shareholder of CX Re or to appoint a majority of the directors of CX Re by shareholders resolution. However, the CX Re articles of association contain certain provisions relating to the appointment of directors and matters requiring approval of at least 75 per cent. of the total number of directors of CX Re as summarised in paragraph 21.12 of Part VII of this document.

1.3 ***The Company may not achieve its targeted ROIC***

The Company operates companies in run-off with both high and low net assets (capitalisation) relative to liabilities. In a low capitalisation model the Company targets a post tax ROIC in excess of 25 per cent. and in a high capitalisation model a post tax ROIC in excess of 15 per cent. (on an ungeared basis). Such returns do not constitute a guarantee of future performance by the Group, a profit or earnings forecast or projection. The Company's actual returns may be significantly lower than those anticipated.

1.4 ***Insurance can be volatile and losses may be incurred***

Tawa owns and plans to invest in insurance companies or portfolios. Insurance is, by its nature, a risk business. Earnings can be volatile and unexpected losses may reduce shareholders' funds. The Group Insurance Companies will be subject to unpredictable losses which may have an impact on the Group's results.

Not only does the expected level of claims estimated by insurers change but investment income and appreciation or depreciation of those investments, which may form an important part of the financial return to insurers, are affected by, *inter alia*, interest rates, exchange rates, taxation changes and other economic events (which are outside the Group's control) as well as investment policy and performance and market events. In the insurance market, risks and rewards vary from risk carrier to risk carrier and according to the categories of business written by those risk carriers. The past results of the market and of individual insurance companies and syndicates are a matter of historic record and may be a poor guide to future prospects.

In its 2006 risk assessment of CX Re, the FSA classified CX Re as "high risk" in respect of "financial soundness", due to the level of its solvency at the time of the FSA's risk assessment, lack of access to additional capital and liquidity. The FSA did note, however, that "high risk" is the benchmark for insurance companies in run-off.

1.5 ***If insured losses exceed the Group Insurance Companies' claim reserves, the financial condition and results of operations of the Group could be significantly adversely affected***

The Group Insurance Companies' financial condition and results of operations will be affected by their ability to forecast accurately the losses associated with their run-off businesses. To the extent insured losses exceed the bearing risk company's claim reserve, that company will be required to recognise immediately the reserve deterioration. This could cause a material increase in the Group Insurance Companies' liabilities and a reduction in its profitability, including an operating loss and reduced capital.

CX Re and KX Re are each, and future potential portfolios acquired will each be, required to maintain reserves to cover their estimated ultimate liability for claims (including claims handling expenses) with respect to reported and unreported claims incurred at the end of each accounting period (including LAE and net of estimated related salvage and subrogation claims and reinsurance recoverables) and the general cost of running the business until fully run-off (known as unallocated loss adjustment expenses or "ULAE"). These reserves and ULAE will be estimated using actuarial and statistical projections based on CX Re's and KX Re's expectations at that time of the ultimate settlement and administration of claims. These expectations will be derived from facts and circumstances then known, predictions of future events, estimates of future trends in claims severity and other variable factors such as inflation and new concepts of liability. As additional information is developed, either CX Re or KX Re will need to revise estimated potential claims and, therefore, its reserves and ULEA. The inherent uncertainties of estimating claim reserves and ULAE can be exacerbated for reinsurers (such as CX Re and KX Re) by the significant periods of time that often elapse between the occurrence of an insured loss, the reporting of the loss to the primary insurer and, ultimately, to the reinsurer, and the primary insurer's payment of that loss and subsequent indemnification by the reinsurer. Establishing an appropriate level of claim reserves is an inherently uncertain process. Accordingly, actual claims and claim expenses paid will likely deviate, perhaps substantially, from the reserve estimates reflected in the Group's financial statements.

If the Group Insurance Companies' claim reserves are determined to be inadequate after taking into account outwards reinsurance coverage, they will be required to increase claim reserves at the time of such determination with a corresponding reduction in the Group Insurance Companies' net earnings in the period in which the deficiency is rectified. This could have a material adverse effect on the Group Insurance Companies. In addition, claim reserves may prove to be inadequate in the event that outwards reinsurance was to become uncollectible. Higher than expected losses may also have an adverse impact on the Group Insurance Companies' regulatory capital adequacy calculations and result in the Group Insurance Companies increasing, or altering the mix, of its capital to meet regulatory requirements.

Further, the Group Insurance Companies run discounted balance sheets which estimate, based upon available claims histories, when insurance claims will be paid. These estimates are then used to discount the Group Insurance Companies' liabilities to a net present value. However, the Group Insurance Companies' actual payment pattern may vary from this estimate, with the result that investments held by such companies may be held longer or liquidated quicker than anticipated. Differences between estimated and actual payment patterns may result in a material adverse effect on the Group's expected investment income and discounts to net present value, resulting in a shortfall in expected earnings.

In the FSA 2006 risk review, the FSA noted that CX Re's cash flow tensions will increase as run-off nears conclusion, which may inhibit the ability of CX Re to release surplus collateral held within trust funds.

1.6 ***Potential acquisition targets and competition***

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

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

Finally, the acquisition of insurance companies/businesses/portfolios may require the approval of the relevant regulator (such as the FSA or the BMA), in respect of approval of not only the Group and Financière Pinault, but also of the Group's and Financière Pinault's directors and officers. There is no guarantee that the relevant regulators will provide such approval or that the conditions on which the regulators will grant such approval will be acceptable.

1.7 ***Risks related to future acquisitions***

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

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

If the Group failed to successfully accelerate the run-off of the acquisitions or manage these operational challenges and risks, that would have a material adverse effect on its business, financial condition or results of operations. No assurance can be given that the Group will be able to manage future acquisitions profitably or to integrate such acquisitions successfully without substantial costs, delays or other problems. In addition, no assurance can be given that any insurance companies and portfolios of policies acquired will achieve levels of profitability or earnings that will justify the investment made by the Group.

1.8 ***Dependence on key executives and personnel***

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

1.9 ***The Group is subject to the credit risk of its reinsurers***

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

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

1.10 ***Regulatory risks***

The insurance industry is heavily regulated in most jurisdictions. CX Re, KX Re, Tawa Bermuda and, upon its authorisation by the FSA as an insurance intermediary, Tawa Management are subject to the insurance regulatory system in the jurisdictions in which they operate. These companies, and any future acquisitions by the Group, may not be able to maintain the necessary licences, permits, authorisations or accreditations in jurisdictions in which they currently engage in business, or obtain in new jurisdictions, or may be able to do so only at significant cost.

In particular, no assurances can be given that Tawa Management, which is currently in the process of applying for authorisation under FSMA as an insurance intermediary, will be successful in obtaining that authorisation. If Tawa Management does not obtain such authorisation, it will not be able to conduct insurance intermediary activities regulated under FSMA without first being appointed as an appointed representative by an entity which is authorised by the FSA to conduct such activities. At present, Tawa Management has been appointed as the appointed representative of CX Re and provides services to KX Re without requiring to be authorised as an insurance intermediary. If Tawa Management does not become authorised as an insurance intermediary, it is still able to become the appointed representative of KX Re (and remain the appointed representative of CX Re) and provide them with regulated insurance intermediary services. Accordingly, if Tawa Management does not become authorised as an insurance intermediary, the resulting impact will be that it will not be able to provide certain services to third party insurers, unless it is appointed as such third parties' appointed representative.

In addition, the Group may not be able to comply with, or obtain appropriate exemptions from, the wide variety of laws and regulations applicable to insurance operations or holding companies. Failure to comply with or to obtain appropriate authorisations and/or exemptions under any applicable laws could result in restrictions on the Group's ability to do business or to engage in certain activities as are regulated in one or more of the jurisdictions in which it operates and could subject the Group to fines or other sanctions, which could have a material adverse affect on the Group's business. In addition, changes in the laws and regulations which the Group's insurance operations are subject could have a material adverse affect on the Group's business (for example, the Group Insurance Companies' and any other regulated member of the Group's future capital requirements may change due to changes in the regulatory regime). The Group's insurance operations in the United Kingdom are (and, in the case of Tawa Management Limited, will be) subject to authorisation from the FSA and Tawa Bermuda is subject to the supervision of the BMA. As FSA and BMA authorised companies, these operations will be subject to close supervision by the FSA and the BMA respectively. Changes in the FSA's and BMA's requirements from time to time may have an adverse impact on the business of the Group. Cost of compliance could increase if there are changes to the regulatory regime.

CX Re is an accredited reinsurer in most jurisdictions in the US and was formerly listed as an alien surplus lines insurer with the International Insurers Department (IID List) of the National Association of Insurance Commissioners (NAIC). Although it is no longer underwriting business, CX Re maintains its reinsurance qualifications because there are adverse consequences to losing them, in particular losing such accreditation as a reinsurer could result in CX Re having to post letters of credit to secure obligations owed to its cedants. CX Re maintains two US trust funds, one with respect to its US cedants (Credit for Reinsurance Trust Deed) and one with respect to its US surplus lines policyholders (Alien Excess and Surplus Lines Trust Deed). KX Re also set up and funded a US surplus lines trust fund, which KX Re is in the process of shutting down because KX Re has no surplus lines liabilities. Further details of these trust funds are discussed at Part VI – Regulation. Even after an accredited reinsurer or surplus lines company no longer maintains its approvals, shutting down these trust funds and receiving the collateral is a lengthy and costly process. Both funds constitute a constraint on CX Re's liquidity, and addressing that constraint requires the cooperation of the pertinent US regulator: the New York Superintendent of Insurance and other insurance commissioners with respect to the reinsurance trust fund, and the trustee with respect to the surplus lines trust. To date, those regulators have been cooperative with respect to releases of funds but that cooperation could change and the ability to challenge an uncooperative regulator in the US is limited.

Furthermore, given that the framework for supervision of insurance business and mediation in the United Kingdom must comply with EU directives (which are implemented by Member States through national legislation), changes at the EU level may affect the regulatory regime under which the Group will operate. Currently there is a review of insurance directives known as 'Solvency II' and the end result of this review may lead to changes such as increased or risk based minimum capital requirements though these are not expected to be introduced in the near future. There can be no assurance that the implementation of Solvency II will not have an adverse effect on the operations of the Group.

The acquisition of insurance companies and, in some cases, portfolios of business is also subject to regulatory control in the UK, the US, Bermuda and most other jurisdictions. Regulatory review will focus on the financial strength, management capability and integrity of the acquiring company and the impact of the proposed transaction on the policyholders of the target company. Powers of regulator are largely discretionary as to such approval. It is therefore possible that one or more regulators may not approve further acquisitions, thereby curtailing the growth of Tawa's business. As an illustration of the possible use of such discretionary powers, the involvement of affiliated companies of Financière Pinault in litigation and enforcement actions in the US arising out of the rehabilitation of Executive Life Insurance Company in the early 1990s could lead regulators to prevent Tawa from completing an acquisition, although to date this has not happened.

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

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

1.11 *Exposure to litigation*

The extent and complexity of the legal and regulatory environment in which the Group operates and the products and services the Group offers mean that many aspects of the business involve substantial risks of liability. Any litigation brought against the Group in the future could have a material adverse effect on the Group. The Group's insurance may not necessarily cover any of the claims that policyholders, clients or others may bring against the Group or may not be adequate to protect it against all the liability that may be imposed. Further, the Group may be reliant on lead insurers or reinsurers (and their agents and counsel) on conducting the proceedings relating to such litigation.

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

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

Another issue arising from the former surplus lines status of CX Re in the US is the requirement, in many states, to post pre-answer bonds in litigation. Many states provide that if an insurer is not licensed or acting pursuant to some licensing exemption recognised in the state, such as surplus lines, then such company must file a pre-answer bond in the amount of the claim before it can file any papers its own defence in a lawsuit.

The Group may be involved in litigation against third parties in the normal course of business and the probable outcome of all such litigation may be taken in the assessment of the Group's liabilities. If the outcome or costs (including potential accrued interest costs) of such litigation is incorrectly estimated, the Group's results could be negatively affected. Further details of litigation involving the Group are set out in paragraph 15 of Part VII of this document.

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

A major element of the Group's proposed operations is for the Group Insurance Companies to enter into commutations with its policyholders, thereby allowing the Group Insurance Companies to accelerate the run-off process. However, changes in market conditions (such as the availability of insurance from other insurers, and developments which may increase the policyholder's perception that it should retain the cover rather than commute the cover) may result in policyholders being reluctant to enter into commutations at all or on terms which are unfavourable to the Group Insurance Companies. The inability to successfully commute policies on favourable terms due to changes in market conditions could adversely affect the Group's profits, ability to accelerate the run-off and extract capital from the businesses and the operations of the Group Insurance Companies.

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

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

1.14 ***Part VII transfers may not be available***

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

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

1.15 ***Solvent Schemes of Arrangement may not be available***

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

The legal process of solvent schemes of arrangements requires the sanction of the court and the consent of the majority in number of those who voted, representing at least 75 per cent. by value of the company's creditors' claims. The Group is vulnerable to changes in the law relating to solvent schemes of arrangement (which are outside its control) such as their continued availability, their legal requirements, the time taken to complete schemes of arrangement and the costs involved. There may also be resistance to such schemes by the creditors of the company proposing the scheme. The legal requirements in obtaining such creditors' consent to the scheme has recently come under increased scrutiny by the courts in the UK and insurance companies seeking solvent schemes of arrangement now have to take more care in drafting the schemes to fit the circumstances of the company and its creditors than was previously the case. Furthermore, insurance solvency statutes in the US generally do not recognise solvent schemes of arrangement, which would pose a risk to the Group's ability to achieve finality in its US run-off business.

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

1.16 ***Capital reductions may not be possible***

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

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

1.17 ***Control systems may prove inadequate***

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

1.18 ***Emerging Claim and Coverage Issues***

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

1.19 ***General economic climate***

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

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

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

In particular, the existing facility agreement dated 3 May 2007 between KX Re Holdings and IXIS Bank (and other lenders) imposes restrictions on KX Re Holdings such that the lenders' consent must be given prior to KX Re purchasing or transferring any insurance policy portfolio. Further, the lenders' must first be consulted prior to KX Re entering into any commutation which will exceed certain thresholds. Further information on this facility deed is set out in paragraph 19 of Part VII of this document.

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

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

In its 2006 risk review of CX Re, the FSA noted that there were rumours within the London market that CX Re did not pay claims promptly. CX Re was asked to update the market on its minimum documentation and information requirements and to inform the FSA how CX Re's board was satisfied that its approach to claims handling and commutations is consistent with the FSA principles. CX Re has now addressed the FSA's concerns. A letter in December 2006 to the FSA, highlighted how it met the FSA principles in respect of claims and commutations and a letter was distributed to the London market brokers in December 2006 on CX Re's minimum documentation and information requirements.

1.22 ***Exposure to coverage disputes***

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

1.23 ***Reliance on third party service providers and IT systems***

The Group will be reliant on third parties for the provision of important services it needs to run its business including in relation to finance systems and processes, IT infrastructure, claims management and investment management services. Further, the Group uses third party administrators in adjusting claims losses and may be reliant on lead insurers or reinsurers (and their agents) in the handling of claims. The data used by the Group is complex, especially in respect of reinsurance, and the Group is reliant on the data being materially accurate in order to operate the businesses. If any of these service providers or lead insurers or reinsurers (and their agents) fail to perform to the necessary level this may severely impact the business of the Group or its IT systems. The Group requires complex and extensive IT systems to run its business. Delay in establishing these IT systems or a failure of existing systems could lead to a delay in the implementation of the Group's business plan and could have a material adverse effect on the Group.

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

The Group will hold significant investments to support its liabilities and its earnings will be affected by the returns achieved on its investment portfolios. Therefore despite the Groups ALM strategies, changes in interest rates, credit ratings and other economic variables could substantially affect the Group's profitability. The capital value of the Group's investments may fall as well as rise and the income derived from them may fluctuate. A fall in such capital values may adversely affect the Group's solvency position.

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

The availability and price of insurance coverage has been affected by factors such as asbestos and environmental liability claims, other liability claims such as directors' and officers' liability and medical malpractice, stock market performance, interest rates, the US terror attacks in 2001 and hurricanes Katrina, Rita and Wilma in 2005. This tightening of supply may result in governmental intervention in the insurance markets which may affect the ability of the Group to obtain suitable run-off reinsurance protection or potential businesses or companies for acquisition.

1.26 ***Currency fluctuations***

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

1.27 ***KX Re may not be licensed to use certain third party software***

KX Re requires the use of third party software called "Senator Vision" in respect of its run-off business. When acquiring KX Re from Continental, Tawa entered into a novation agreement with CCC and the licensor of the Senator software, Sunguard, whereby CCC novated its licence to use and modify a particular version of Senator known as "Senator Vision" to KX Re for the purpose of administering, through 31 December 2013, the KX Re insurance book existing at the time of sale of KX Re to KX Re Holdings. However, it was not entirely clear from the due diligence documents available to Tawa when acquiring KX Re as to the scope of the rights to the Senator Vision software package licensed to CCC. There is therefore a risk that KX Re does not have a sufficiently wide licence to use the Senator Vision software in respect of its run-off business. However, via a deed of indemnity, Continental has agreed to indemnify KX Re and KX Re Holdings against any claims that KX Re does not have valid agreements to use, through 31 December 2013, Senator Vision for the purposes of its run-off business in effect at the time of the sale of KX Re.

1.28 ***Forward-looking statements***

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

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

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

2. Risks relating to the Ordinary Shares

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

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

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

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

2.2 ***A change of control of the Company may be difficult to effect under applicable insurance laws***

Under the FSMA, any person proposing to acquire "control'' over a UK authorised person must give prior notification to the FSA of his intention to do so. The FSA has three months to consider that person's application to acquire "control.'' In considering whether to approve such application, the FSA must be satisfied that both the acquirer is a fit and proper person to have such ''control'' and that the interests of consumers would not be threatened by such acquisition of ''control.'' Failure to make the relevant prior application could result in action being taken against the Company by the FSA. It could also result in criminal sanctions being applied to the proposed controller, and restrictions on the exercise of rights connected to the acquired shares, and an order for the sale or transfer of the improperly acquired shares.

A person who is already an approved controller of CX Re or KX Re by virtue of holding 10 per cent. (or, in respect of Tawa Management upon its authorisation by the FSA as an insurance intermediary, 20 per cent.) or more of the shares in the Company or being entitled to exercise or control the exercise of 10 per cent. (or, in respect of Tawa Management, 20 per cent.) or more of the voting power in the Company will nevertheless require the prior approval of the FSA if it will increase its level of control beyond certain specified percentages. These are 20 per cent., 33 per cent. and 50 per cent.

Tawa Management (Bermuda) is registered as an insurance manager under the Bermuda Insurance Act and as such is a "registered person" for the purposes of the Bermuda Insurance Act. As such, Tawa Management (Bermuda) is required to give written notice to the BMA of the fact that any person has become or ceased to be a controller of Tawa Management (Bermuda). Such notice is required to be given within 45 days after the registered person becomes so aware that a person has become a controller. Failure to give such a notice is an offence under the Bermuda Insurance Act.

If the BMA considers that a person who is a controller of Tawa Management (Bermuda) is not or is no longer a fit and proper person to be a controller of Tawa Management (Bermuda) it may serve such person with a written notice of objection to such person continuing to be a controller in accordance with the procedure set out in the Bermuda Insurance Act. Any person who continues to be a controller after being served with a notice of objection shall be guilty of an offence. The BMA may also require the controller to reduce its holding of Ordinary Shares in the Company or require the Company to direct Tawa Management, the parent company of Tawa Management (Bermuda), that the relevant voting rights attaching to the shares in Tawa Management (Bermuda) are not exercisable.

The term "controller" is defined in the Bermuda Insurance Act amongst other things to include (a) any person who holds 10 per cent. or more of the shares carrying rights to vote at a general meeting of the registered person (i.e. Tawa Management (Bermuda)) or its parent company (Tawa Management or the Company) or (b) if such person is able to exercise a significant influence over the management of the registered person (i.e. Tawa Management (Bermuda)) or its parent company (Tawa Management or the Company) by virtue of a holding of shares or an entitlement to exercise or control the exercise of the voting power at any general meeting of Tawa Management (Bermuda) or its parent company (Tawa Management or the Company). Accordingly, a holder of 10 per cent. or more of the shares of the Company or some person (including the Company) who exercises significant control over Tawa

Management (Bermuda) or its parent company will be deemed a controller of Tawa Management (Bermuda) for the purposes of the Bermuda Insurance Act.

Since CX Re is still accredited for reinsurance in most states in the US state insurance regulators would also have to be notified of a change in control at the Company level and permission in some states may be required.

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

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

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

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

2.5 ***Holding company structure and restrictions on dividends***

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

The Company intends to pay a dividend to its shareholders in respect of the year ending 31 December 2007. However, all dividends will be subject to the future financial performance of the Group including results of operations and cash flows, the Group's financial position and capital requirements, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends and any other factors the Directors deem relevant in their discretion, which will be taken into account at the time. Accordingly, it is uncertain when, if ever, dividends will be declared by the Company to its Shareholders (and such dividends will be at the discretion of the Board. The dividend policy mentioned in Part I Part VII of this document should not be construed as a dividend forecast.

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

3. Risks relating to tax

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

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

PART IV(A)(i)

ACCOUNTANT'S REPORT ON TAWA PLC

Deloitte.

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20 July 2007

The Board of Directors
on behalf of Tawa plc
The London Underwriting Centre
3 Minster Court
Mincing Lane
London EC3R 7DD

KBC Peel Hunt Limited
111 Old Broad Street
London EC2N 1PH

Dear Sirs

Tawa plc

We report on the financial information set out in Part IV(A)(ii) of this document dated 20 July 2007 of Tawa plc (the "Company" and, together with its subsidiaries, the "Group") (the "Admission Document"). This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in note 3 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation) as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Save for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex 1 item 23.1 of the Prospectus Directive Regulation as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

Basis of opinion

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 2.

Declaration

For the purposes of annex 1 (item 1.2) of the Prospectus Directive Regulations as applied by paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

PART IV(A)(ii)

FINANCIAL INFORMATION ON TAWA PLC

CONSOLIDATED INCOME STATEMENT

(For the year ended 31 December)	*Notes*	*2006*	*2005*	*2004*
		$m	*$m*	*$m*
Continuing operations				
Revenue	6	21.9	–	–
Cost of services		(18.6)	(1.6)	(6.0)
Gross profit/(loss)		3.3	(1.6)	(6.0)
Administrative expenses		(4.3)	(1.4)	(1.6)
Other income		0.1	–	–
Share of results of associates	7	5.6	–	–
Operating profit/(loss)		4.7	(3.0)	(7.6)
Finance costs	8	(0.2)	(0.9)	(0.8)
Finance income	9	0.6	1.3	3.1
Profit/(loss) before tax		5.1	(2.6)	(5.3)
Income tax	10	–	–	–
Profit/(loss) for the year from continuing operations		5.1	(2.6)	(5.3)
Profit/(Loss) for the year from discontinued operations	11	47.9	6.4	(25.2)
Profit/(loss) for the year	12	53.0	3.8	(30.5)
Attributable to:				
Equity holders of the Company		53.0	3.8	(30.5)

Earnings per share	*Notes*	*2006*	*2005*	*2004*
From continuing and discontinued operations	13			
Deferred Shares (dollars per share)		1,650.0	–	–
From continuing operations	13			
Deferred Shares (dollars per share)		150.0	–	–

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

(For the year ended 31 December)	*2006*	*2005*	*2004*
	$m	*$m*	*$m*
Currency translation differences	1.1	(0.2)	(0.6)
Net income/(expense) recognised directly in equity	1.1	(0.2)	(0.6)
Profit/(Loss) for the year	53.0	3.8	(30.5)
Total recognised income and expense for the year attributable to equity holders of the Company	54.1	3.6	(31.1)

CONSOLIDATED BALANCE SHEET

(As at 31 December)	*Notes*	*2006*	*2005*	*2004*
		$m	*$m*	*$m*
Assets				
Cash and cash equivalents	14	5.7	23.5	21.5
Investments: Debt and equity securities	15	–	636.7	992.7
Loans and Receivables	16	3.7	53.1	126.8
Reinsurers' Share of Technical Provisions	17	–	149.9	227.4
Property, plant and equipment	18	0.8	1.0	2.5
Deferred Assets	19	106.0	–	–
Interests in associates	7	12.6	–	–
Goodwill	20	18.2	18.2	18.2
Total assets		147.0	882.4	1,389.1
Equity				
Share capital	21	57.2	57.2	57.2
Retained earnings		85.3	31.2	27.6
Total equity attributable to equity holders	24	142.5	88.4	84.8
Liabilities				
Creditors arising out of direct insurance operations		–	1.6	3.6
Creditors arising out of reinsurance operations		–	69.2	135.1
Other liabilities	22	4.5	14.0	16.1
Technical Provisions	17	–	709.2	1,149.5
Total liabilities		4.5	794.0	1,304.3
Total liabilities & equity		147.0	882.4	1,389.1

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 31 December)

		2006 – $m			2005 – $m			2004 – $m		
	Notes	*Continuing*	*Discontinued*	*Total*	*Continuing*	*Discontinued*	*Total*	*Continuing*	*Discontinued*	*Total*
Cash (used in)/generated from operations	25	(4.1)	(46.3)	(50.4)	6.2	(395.8)	(389.6)	(0.4)	(267.0)	(267.4)
Income tax recovered/(paid)		–	–	–	–	–	–	–	–	–
Net cash (used in)/generated from operating activities		(4.1)	(46.3)	(50.4)	6.2	(395.8)	(389.6)	(0.4)	(267.0)	(267.4)
Cash payments to acquire equity and debt securities		–	(88.0)	(88.0)	–	(800.2)	(800.2)	–	(472.8)	(472.8)
Cash receipts from sale of equity and debt securities		–	125.6	125.6	–	1,189.4	1,189.4	–	756.2	756.2
Cash receipts from interest and dividends		0.7	–	0.7	1.1	0.8	1.9	0.3	0.4	0.7
Net cash generated from investing activities		0.7	37.6	38.3	1.1	390.0	391.1	0.3	283.8	284.1
Net increase/(decrease) in cash and cash equivalents		(3.4)	(8.7)	(12.1)	7.3	(5.8)	1.5	(0.1)	16.8	16.7
Cash and cash equivalents at beginning of year		9.2	14.3	23.5	1.4	20.1	21.5	1.5	3.3	4.8
Cash held in associates			(5.6)	(5.6)	0.5	–	0.5	–		–
Cash and cash equivalents at end of year		5.7	0.0	5.7	9.2	14.3	23.5	1.4	20.1	21.5

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Tawa UK Limited (the "Company") and its subsidiaries (together the "Group") are engaged in two principal business activities:

- The acquisition and run-off of insurance companies that have ceased underwriting, and;
- The provision of run-off management services to acquired insurance companies.

On 21 March 2006, the Company disposed of the majority of its 100 per cent. shareholding in CX Reinsurance Company Limited ("CX Re"), whose primary business activity had been the carrying out of reinsurance contracts written prior to August 2001, when it ceased underwriting new business. As a result of the disposal, the classification of the Company's shareholding in CX Re changed from "subsidiary" to "associate" as the Company retains 49.95 per cent. of the voting power. Consequently, the operating results, assets and liabilities have been treated as discontinued for all years up to the date of sale. The profit on disposal has been included in "Profit for the year from discontinued operations" in the Income Statement. Deferred consideration related to the disposal of CX Re has been recorded in the balance sheet. Any future adjustments to deferred consideration will be accounted for as adjustments to the profit on disposal in the years in which the adjustments to the deferred consideration arise.

The Group acquired the entire share capital of KX Reinsurance Company Limited in May 2007.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union and therefore the group financial statements comply with Article 4 of the EU IAS regulation. The financial statements also comply with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in millions of US dollars, rounded to the nearest hundred-thousand. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through the income statement.

The preparation of financial statements in conformity with IFRS requires management to exercise its judgement in making estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the periods in which the estimates are revised if the revisions affect only those periods or in the periods of the revision and future periods if applicable.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in following years include:

Outstanding claims provisions and related reinsurance recoveries

There is uncertainty as regards the eventual outcome of the claims and related reinsurance recoveries that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified and those that are not yet apparent to the insured. 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 reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

2. BASIS OF PREPARATION (continued)

Basis of discounting

The Group's net technical provisions, estimated as set out in note 4 "Analysis of Risk", 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 Group's actuaries from analysis of historical patterns experienced by the Group and other comparable companies in run-off. The Group'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 Group at the balance sheet date.

The use of discounted technical provisions in representing the economic position of the Group necessarily depends upon the accuracy of the estimate of:

(i) future claims and expense 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.

Fair value of financial assets- measurement considerations

(i) ***Active market: quoted price***

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate.

Revenue recognition – Deferred consideration

The deferred consideration carried in the balance sheet is linked to the net asset value of the Group's associate, CX Re. A number of risks impact the fair value of CX Re and any changes in the fair value of CX Re will have a direct impact on the value of deferred consideration carried in the balance sheet.

As IFRS are limited in specifying full insurance-specific guidelines to the requirements of IFRS 4 'Insurance Contracts' pending completion of the second phase of the IASB's project on insurance contracts, accounting policies for insurance contracts have been selected with primary consideration to existing UK GAAP as permitted by IFRS 4. The annual basis of accounting has been applied to all classes of business.

3. ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by all Group entities.

Basis of consolidation

These financial statements consolidate all the enterprises in which the Group owns or controls, directly or indirectly, the majority of the voting shares. There are no other enterprises over which the Group has the ability to exercise control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity.

Intra-group transactions, balances, and gains and losses are eliminated except to the extent that the transaction provides evidence of an impairment of the asset transferred.

The results of subsidiaries disposed of during the year are included in the consolidated income statement up to the effective date of disposal, as appropriate.

The financial results, profit on disposal and deferred consideration adjustments relating to the sale of group operations are included in “Profit for the year from discontinued operations” in the Income Statement.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

3. ACCOUNTING POLICIES (continued)

Investments in associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit or loss in the period of acquisition.

Segment reporting

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

Foreign currency translation

a) ***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the major group entities are:

CX Reinsurance Company Limited	USD
Tawa plc	GBP
Tawa Management	GBP

The consolidated financial statements are presented in millions of US dollars, which is the Group's presentation currency.

b) ***Group companies***

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing exchange rates at the date of the most recent balance sheet presented;

ii) income statement items are translated at average exchange rates prevailing throughout the relevant year;

iii) all resulting exchange differences are recognised as a separate component of equity.

3. ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

c) ***Transactions and balances***

Premium, claim and commission transactions and investment income during the year are recorded in ledgers denominated in the recognised settlement currencies and translated into US dollars at average rates of exchange during the year. Other revenue transactions are recorded at average rates of exchange during the year.

Non-monetary assets are initially translated at transaction date. Non-monetary items are measured at the average rate applicable when the transaction occurred and not retranslated.

Revenue Recognition

Revenue is attributable to providing management and operational services relating to the insurance industry and all income derived from associated concerns and is recognised in the Income Statement on an accrued basis. Incentive fees are attributable to providing transaction facilitation and structuring services and are recognised in the Income Statement on an accrued basis.

A business performance bonus is payable by CX Re to Tawa Management Limited for distribution to Tawa Management Limited employees. The bonus is approved by the CX Re directors and is calculated with reference to:

1) agreed targets; and

2) the discretion of the directors.

The actual bonus awarded re 2003 and 2004 was in line with the agreed targets. Those for 2005 and 2006 have been at the discretion of the directors. The bonus is invoiced to CX RE and paid out by Tawa Management Limited over three years with monies being held in a separate account. Interest on the bonus fund is paid to charities.

Deferred consideration is attributable to the disposal consideration of CX Re and is determined on an annual basis by reference to the terms of the sale which include changes in the net asset value of CX Re. As described in the Analysis of Risk note, the net assets of CX Re are impacted by a variety of factors including the uncertainty in the estimation of future claims payments.

Accounting for insurance contracts

Premium revenue

Written premiums, gross of commission payable to intermediaries, comprise the Group's share of written premiums on contracts entered into during a financial period, regardless of whether such amounts may relate in whole or in part to a later financial period, exclusive of taxes and duties levied on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for pipeline premiums. For inwards proportional reinsurance treaties and certain binding authorities and lineslips, written premium is included in line with anticipated writing patterns of cedants and agents. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

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.

3. ACCOUNTING POLICIES (continued)

Accounting for insurance contracts (continued)

Claims outstanding and loss adjustment expenses

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 provisions for future costs related to the management of the run-off of the portfolio of claims. Where applicable, prudent estimates are made for salvage and subrogation recoveries.

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. Claims outstanding are carried at actuarial "best-estimates".

Discounting

The Group's net technical provisions, estimated as set out in note 4 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 Group's actuaries from analysis of historical patterns experienced by the Group and other comparable companies in run-off. The Group'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 Group at the balance sheet date.

Employee Benefits

Pension Costs

The Group only operates defined contribution pension arrangements. Contributions are charged to the income statement as employee benefit expense as they become payable in accordance with the rules of each scheme. The Group has no further payment obligations once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Financial Instruments

The Group recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition the Group determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the financial instruments are acquired.

a) ***Investments (Debt & Equity Securities)***

Debt & Equity securities are non-derivative financial assets. On initial recognition, the fair value is the cost including transaction costs directly attributable to the acquisition. On subsequent remeasurement, the fair value represents the listed bid price. Fair value movements are recognised through the income statement.

3. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

b) ***Loans and receivables including insurance receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are designated on initial recognition and measured at fair value, using relevant measurement techniques. They are subsequently measured at fair value. Annual impairment reviews are undertaken and allowances are made for any permanent impairments.

c) ***Available for sale investments***

Changes in the fair value, as assessed annually, of investment available for sale, are recognised in the statement of recognised income and expenses.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group does not deal in any derivatives. Purchases and sales of securities and currencies are recognised on trade date – the date on which the group commits to purchase or sell the asset.

Before evaluating whether, and to what extent, de-recognition of a financial asset or liability is appropriate, the Group determines whether de-recognition should be applied to only part of the financial asset/liability or group of financial assets/liabilities. The Group only derecognises a financial asset or liability when the contractual rights and obligations to the cash flows expire or the financial asset/liabilities are transferred and the Group has also transferred substantially all risks and rewards of ownership.

Gains and losses on derecognition are recognised through the income statement. Changes in fair value of available for sale investments, except for foreign exchange gains and losses and impairment losses, are recognised through the income statement.

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.

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.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses when appropriate. Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Property	50 years
Fixtures & Fittings	4 years
Computer Equipment	4 years

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

The residual values and useful lives of the assets are reviewed at each balance sheet date and adjusted if appropriate.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets at each balance sheet date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Taxation

Income tax expense represents the sum of the tax payable or receivable in the year and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on all temporary differences, which are based on the difference between the financial statement carrying values and the tax bases of assets and liabilities using enacted income tax rates and laws. Deferred income tax assets are recognised to the extent that it is regarded as probable that they will be utilised against sufficient future taxable income. Deferred income tax assets and liabilities are not discounted.

Current tax payable by any Group company on distribution to the holding company of the undistributed profits of any subsidiaries is recognised as deferred tax unless the timing of the distribution of those profits is controlled by the holding company and the temporary difference is not expected to reverse in the foreseeable future.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. ACCOUNTING POLICIES (continued)

Borrowings

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms.

Borrowings are recognised and carried at fair value, net of transaction costs incurred. Changes in fair value are recognised through the income statement.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

Transactions with related parties

IFRS requires all entities to disclose related party transactions. The Group's policy is to have regard to the materiality from both the shareholders' and the related party's perspective.

Operating leases

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

Accounting Developments

The International Accounting Standards Board (IASB) issued IFRS 7 'Financial Instruments: Disclosures' in August 2005. The standard replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure provisions in IAS 32. IFRS 7 requires disclosure of the significance of financial instruments for an entity's financial position and performance and of quantitative information about exposure to risks arising from financial instruments. The Standard is effective for annual periods beginning on or after 1 January 2007.

Also in August 2005, the IASB issued an amendment 'Capital Disclosures' to IAS 1 'Presentation of Financial Statements'. It requires disclosures about an entity's capital and the way it is managed. This amendment is also effective for annual periods beginning on or after 1 January 2007.

The Company is reviewing IFRS 7 IFRIC 10 and the amendment to IAS 1 to determine their effect on its financial reporting. The standards and interpretation will be adopted with effect from 1 January 2007.

The company is reviewing IFRS 8 "Operating segments" to determine its effect on its financial reporting. The standard will be adopted with effect from 1 January 2009. In addition to the above standards the Company has considered other new international accounting interpretations (IFRIC 8, 9, 11 and 12) issued during the year and has concluded that they will not apply to the Company.

4. ANALYSIS OF RISK

Risk management framework

The Group is exposed to various types of risk. Although the Group disposed of the majority of its shareholding in CX Re on 21st March 2006, retaining only a 12.65 per cent. shareholding now accounted for under the equity method, the deferred consideration receivable on the sale of CX Re is impacted by the net asset value of CX Re and consequently, the Group remains exposed to all the major risk types related to CX Re as discussed below.

The Board of Directors retains overall responsibility for the risk management framework that has been established to mitigate the Group's exposure to risk and assesses the effectiveness of the controls established to identify, monitor and mitigate the risks faced by the Group.

The risks that the Group faces, or faced during the periods under review, include, but are not limited to:

Insurance risk – risk associated with the uncertainty, the quantum of the claim or the time when claims payments will fall due.

Investment and credit risk – risk associated with the Group's reinsurance arrangements, investment portfolio, and other counter party credit risk.

Financial risk – risk associated with possible future change in one or more of a specified interest rate, financial instrument price, foreign exchange rate or other variable.

Insurance risk

Underwriting Risk

CX Re ceased underwriting in August 2001, prior to its acquisition by the Company.

Sources of uncertainty in the estimation of future claim payments

The uncertainty in the financial statements principally arises in respect of the technical provisions of the insurance operations. There is 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 and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the Group needs to apply sophisticated estimation techniques to determine the appropriate provisions. The Group 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 Group's in-house actuaries including reference to internal and external benchmarks. The methods used, and the estimates made, are reviewed regularly. The methodology used to project ultimate development for liability classes is reviewed annually.

4. ANALYSIS OF RISK (continued)

Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments (continued)

The provision for claims outstanding and the provision for 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. The use of discounted technical provisions in representing the economic position of the Group necessarily depends upon the accuracy of the estimate of:

(i) future claims and expense 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.

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 reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

The following table presents CX Re's booked gross claims outstanding before claims handling provisions and before discounting by major risk class:

	Asbestos, Pollution, Latent *$m*	*IGI* *$m*	*Other* *$m*	*Total* *$m*
2006	140.9	74.3	340.5	555.7
2005	176.7	111.8	637.9	926.4
2004	231.0	179.6	1,037.5	1,448.1

The following table analyses CX Re's gross claims outstanding between incurred but not reported ('IBNR') and case reserves:

	2006	*2005*	*2004*
Case reserves	88.2%	86.2%	75.7%
IBNR	11.8%	13.8%	24.3%
Total	100.0%	100.0%	100.0%

Asbestos, pollution and other latent claims

These claims arise from policies issued prior to 1986 on a losses occurring basis. This means that a claim being notified any time after the exposure period would attach back to that exposure period regardless of the length of delay. By their nature 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 Group's portfolio. Significant adverse development may have a material impact on the Group's future results and net assets.

4. ANALYSIS OF RISK (continued)

Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments (continued)

Other, excluding IGI

All books of business have been closed to new exposures for a number of years now and the result is that they do not suffer from attritional claims activity. However, the age of these claims means that more will be subject to disputes on the extent of coverage and size of loss and allocation of loss amounts. Market rulings and legal judgements can have a material effect on groups of these claims making the final outcome uncertain.

IGI

This was a portfolio of personal accident reinsurance business that was subject to particular uncertainty. It was, however, fully reinsured with CNA Chicago. Since the year end this portfolio was subject to a reinsurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 transferring the liability from CX Re to a third party reinsurer.

Basis for establishing provision for claims outstanding

Loss reserves for insurance and reinsurance business are established based on claims data reported to the Group by ceding companies supplemented with relevant industry benchmark loss development patterns used to project the ultimate incurred loss. Ultimate incurred loss indications are calculated by the Group's actuaries using several standard actuarial methodologies.

The Group's actuaries utilise several assumptions in applying each methodology, including loss development factors and actual reported claim frequency and severity. These reviews and documentation are completed in accordance with professional actuarial standards appropriate to the jurisdictions where the business is written. The selected assumptions reflect the actuaries' judgement based on historical data and experience combined with information concerning economic, judicial, regulatory and other influences on ultimate claim settlements. Best estimates are derived for each group and underwriting year.

Based on the actuarial indications, the Group selects and records a single point estimate, which becomes management's best estimate which the Group considers to be one that has an equal likelihood of developing a redundancy or deficiency as the loss experience matures. On a quarterly basis the Group analyses and records its loss reserve estimates across detailed lines of business which reflect class of business, geographic location, insurance versus reinsurance, proportional versus non-proportional, and treaty versus facultative exposures. In addition, a limited number of the Group's largest contracts are reviewed individually.

During the loss settlement period, additional facts regarding claims are reported. As this occurs it may be necessary to increase or decrease the unpaid losses and loss expense reserves. The actual final liability may be significantly different to prior estimates. The Group reviews additional reported claim information on a monthly basis. Actual claim experience is compared to that expected from the most recent actuarial reserve review to highlight significant variances. A complete actuarial analysis by detailed line of business including selection of single point estimates is completed annually and is reviewed by the Group's management.

The Unallocated Loss Adjustment Expense provision ("ULAE") is based on assessment of the resources required by year to deliver the strategy for each company taking into account staff by department, accommodation and office services overheads, legal and professional charges, including assistance with planned schemes of arrangement, IT overheads including investment in system developments and human resources overheads. These estimates are reviewed in the context of previous years' actual expenses. These estimates are reviewed and agreed by the management team prior to presentation to the board.

4. ANALYSIS OF RISK (continued)

Financial Risk

Introduction

The Group is subject to several types of financial risk, particularly through its equity accounted investment in CX Re. The most significant of these is the risk that at any given date, the proceeds from realising the financial assets of the Group may be insufficient to meet the financial obligations arising from its insurance contracts. The Group is also exposed to risk as a result of changes in foreign currency.

The Group is also exposed to interest rate risk on its insurance reserves and floating rate borrowings. Where appropriate, reserves are discounted as permitted by IFRS 4. The Group discount rate used is based on the USD risk-free rate. A reduction of 1 per cent. would reduce the net assets in CX Re's balance sheet by approximately $1.2 million as at 31 December 2006 (2005: $0.6m and 2004:$2.5m).

Market Risk (including interest rate risk)

CX Re's investment strategy is based on a high quality diversified portfolio of liquid investment grade fixed income and other securities as a method of preserving equity capital and prompt claim payment capability.

CX Re's invested assets are subject to interest rate risk. CX Re's interest rate risk is concentrated in the US and Europe and is sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Based on invested assets at external managers of $330.8m as at 31 December 2006 (2005: $484.3m & 2004: $776.2m), a 1 per cent. increase/decrease in interest rates across the yield curve would result in an approximate $15m unrealised loss/profit in 2006 (2005: $28m & 2004: $45m)

The Group uses external investment managers to invest and manage its assets. The Group's Asset & Liability Management Committee establishes investment policies and creates guidelines for external investment managers which are approved by the Board. These guidelines specify criteria on the overall credit quality and liquidity characteristics of the portfolio and include limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities.

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Market Risk (including interest rate risk) (continued)

The following table shows how CX Re's securities were invested among different asset classes:

Asset class	*2006*	*2005*	*2004*
US government	24%	20%	24%
Mortgage backed securities	7%	6%	4%
Commercial mortgage backed securities	12%	9%	4%
EU government and corporate	6%	12%	8%
GBP corporates and government	10%	13%	17%
Corporates	17%	27%	31%
Municipals	3%	2%	1%
Asset backed securities	8%	6%	6%
Canadian government	3%	2%	1%
Cash and other	10%	3%	4%
	100%	100%	100%

The following table shows CX Re's securities maturity dates and interest rate ranges:

Maturity date or contractual re-pricing date

$ million – 2006	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities fixed interest rate	255	62	8	35	16	134
Variable yield securities	57	57				

Interest rates range

	Less than one year	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Debt securities fixed interest rate	None	2.9%–5.5%	2.6%–6.1%	3.2%–7.4%	0%–9.9%

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Market Risk (including interest rate risk) (continued)

Maturity date or contractual re-pricing date

$ million – 2005	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities						
fixed interest rate	541	78	25	43	52	343
Variable yield securities	64	64				

Interest rates range

	Less than one year	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Debt securities					
fixed interest rate	None	2.6%–8.3%	2.9%–5.9%	2.6%–7.8%	0%–10.6%

Maturity date or contractual re-pricing date

$ million – 2004	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities						
fixed interest rate	800	111	35	62	96	496
Variable yield securities	107	107				

Interest rates range

	Less than one year	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Debt securities					
fixed interest rate	None	2.5%–9.0%	2.2%–8.3%	2.6%–6.9%	2.5%–10.6%

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Deferred Asset

On 21 March 2006 Tawa disposed of 87.35 per cent of the “A” Shares (carrying the economic rights) of CX Re and 50.05 per cent of the “B” Shares (carrying the voting rights) of CX Re to two financial institutions and other purchasers for an initial consideration from each purchaser with further amounts being payable to Tawa, referenced to future distributions from CX Re to its shareholders. Such distributions would be enhanced by the successful offset of CX Re’s tax losses by the shareholders against their respective taxable profits. This transaction created $47 million of value for the Group, which is included in the deferred assets at 31 December 2006. The $47 million proceeds will not be released to the Group until the claiming companies agree their tax returns for the relevant periods with HMRC. Should the losses not finally be available to the claiming companies, the proceeds would accrue to the benefit of the claiming companies and the deferred amounts receivable by the Group would reduce accordingly.

Credit risk

When CX Re was underwriting, it purchased reinsurance to manage its catastrophe exposure and mitigate insurance risk. However, the ceding of insurance risk exposes CX Re to credit risk from its reinsurers and retrocessionaires.

In designing the reinsurance programme CX Re took account of the risk assessment, the financial strength of reinsurance counterparties, the benefits to shareholders of capital efficiency and reduced volatility, and the cost of reinsurance protection.

When underwriting, CX Re purchased retrocessional reinsurance to improve the extent to which it could manage risk exposures, protect against catastrophic losses, access additional underwriting capacity and stabilise financial ratios.

CX Re selected its reinsurers and retrocessionaires based on price and credit quality and continues to monitor them closely over time. It also sought to diversify its business among reinsurers and retrocessionaires and required collateral where deemed prudent to do so. Thus, the use of maximum limits for credit exposure to any one counter party was an effective method for mitigating credit risk.

Credit risk includes the risk of reinsurer default. The level of uncertainty inherent in the recoverability of reinsurance recoveries is enhanced at this point in time due to the impact on the reinsurance industry of a number of severe catastrophes in recent years, including the 2004 and 2005 hurricanes. Included in CX Re’s balance sheet are substantial reinsurance recoveries. The Directors have assessed exposure to bad debts arising from reinsurance dispute or failure and, following careful review, have made a provision against bad debts based on current information available.

Reinsurance recoveries are calculated by reference to the gross claims including IBNR utilising CX Re’s recovery programmes for facultative, proportional and excess of loss reinsurance. Terms and conditions for all protections have been incorporated in a software model. There is a quarterly review process to ensure the recoveries calculated are accurate, if any amendments are required these are made as manual adjustments.

For bad debt provisioning purposes, all insolvent security has a 100 per cent. provision and reinsurers in run-off are generally provided for at 25 per cent. , subject to assessment of the parent company of the reinsurer. For selected reinsurers 10 per cent. provision due to collection difficulties is provided. Well rated reinsurers are not provided against. In addition to a security provision there is a 100 per cent. provision for losses classified as contentious and a 50 per cent. provision for time barred losses. Any inwards set offs are netted off fully.

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk (continued)

The average credit rating of the reinsurers representing more than 50 per cent. of the total amount recoverable under reinsurance contracts was A- as at 31 December 2006 (2005: A & 2004: AA-).

The 3 largest aggregate stop loss policies which are collateralised are as follows:

31 December 2006 in $m	*Amount Recoverable*	*Discount*	*Net Amount*	*Collateral*
AXA	3.5	(1.2)	2.3	0.1
Union America	0.5	(0.2)	0.3	0.5
Zurich	0.1	–	0.1	0.1

31 December 2005 in $m	*Amount Recoverable*	*Discount*	*Net Amount*	*Collateral*
AXA	5.1	(1.5)	3.6	0.3
Union America	0.7	(0.2)	0.5	0.5
Zurich	0.2	(0.1)	0.1	0.1

31 December 2004 in $m	*Amount Recoverable*	*Discount*	*Net Amount*	*Collateral*
AXA	0.5	(0.2)	0.3	0.5
Union America	0.6	(0.2)	0.4	1.2
Zurich	0.2	(0.1)	0.1	0.3

Additionally, the Group is subject to credit risk in respect of third party entities in which the Group holds debt securities issued by those entities. As a consequence of the established investment policies and in order to mitigate investment risk, the average credit quality of the portfolio was AA+ in 2006, 2005 and 2004. Other than with respect to US, Canadian and European Union government and agency securities, the Group's investment guidelines limit its aggregate exposure to any single issuer to 2 per cent. of its portfolio. All securities must be rated BBB- or better at the time of purchase and the weighted average rating requirement of the Group's portfolio is A. There were no investment write-offs in 2004, 2005 or 2006.

The following table illustrates the split of total debt securities by rating of investee:

Credit Rating of investee	*2006 in %*	*2005 in %*	*2004 in %*
AAA/US Government or equivalent	72.83%	55.01%	58.40%
AA	11.84%	19.00%	14.15%
A	15.33%	25.99%	27.45%
Total	100%	100%	100%

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk (continued)

At 31 December 2006, the Group's largest aggregate exposure to any single issuer other than with respect to the United States government and agency securities was $33 million (2005: $62.9m & 2004: $132m) in respect of Great Britain government securities.

Depending upon the duration of the liabilities supported by a particular portfolio, the Group's portfolio investment duration targets may range from 4 to 6 years. The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. The Group seeks to utilise investment benchmarks that reflect this duration target. The Group's Assets & Liability Management Committee periodically revises the Group's investment benchmarks based on business and economic factors including the average duration of the Group's potential liabilities. At 31 December 2006, the Group's investment portfolio had an effective duration of 4.7 years (2005: 5.6 years & 2004: 5.5 years).

Liquidity risk

Liquidity risk is the potential that obligations cannot be met as they become due as a consequence of not being able to readily realise assets to meet these obligations.

Asset and liability mismatch risk

In order to ensure that adequate liquid resources are available to fund insurance liability cash outflows when they fall due, the Group's practice is to invest in assets to establish a sufficient matching with the currency and duration of the expected related liabilities for liquidity purposes. The tables below show the matching of assets and liabilities for the years under review:

CX Re only		*Maturity date or contractual re-pricing date*				
$ million – 2006	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt & other securities	401.1	97.1	12.0	55.7	25.5	210.8
Cash	2.9	2.9				
Reinsurers' share of technical provisions	97.2	20.2	14.0	9.0	7.0	47.0
Other assets	68.1	68.1				
Total assets	569.3	188.3	26.0	64.7	32.5	257.8
Technical provisions	(415.0)	(87.2)	(60.6)	(36.3)	(29.7)	((201.2)
Other liabilities	(56.3)	(32.1)		(24.2)		
Equity	(98.0)					(98.0)
Total liabilities and equity	(569.3)	(119.3)	(60.6)	(60.5)	(29.7)	(299.2)
Mismatch – surplus /deficit		69.0	(34.6)	4.2	2.8	(41.4)
Cumulative mismatch		69.0	34.4	38.6	41.4	–

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk (continued)

Asset and liability mismatch risk (continued)

Consolidated balance sheet		*Maturity date or contractual re-pricing date*				
$ million – 2006	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Deferred consideration	106.0			106.0		
Cash	5.7	5.7				
Other assets	35.3	–		17.1	–	18.2
Total assets	147.0	5.7	–	17.1	–	18.2
Net liabilities	(4.5)	(4.5)				
Equity	(142.5)					(142.5)
Total liabilities and equity	(147.0)	(4.5)	–	–	–	(142.5)
Mismatch – surplus /deficit		1.2	–	17.1	–	(18.3)
Cumulative mismatch		1.2	1.2	18.3	18.3	–

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk (continued)

Asset and liability mismatch risk (continued)

Consolidated balance sheet

$ million – 2005	*Total*	*Maturity date or contractual re-pricing date* *Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Deferred consideration	636.7	91.5	30.0	50.8	60.8	403.5
Cash	23.5	23.5				
Reinsurers' share of technical provisions	149.9	32.9	22.8	17.4	19.1	57.8
Other assets	72.3	54.1				18.2
Total assets	882.4	202.0	52.7	68.2	79.9	479.5
Technical provisions	(709.2)	(155.5)	(107.7)	(82.4)	(90.2)	(273.4)
Other liabilities	(84.8)	(84.8)				
Equity	(88.4)					(88.4)
Total liabilities and equity	(882.4)	(240.3)	(107.7)	(82.4)	(90.2)	(361.8)
Mismatch – surplus/ deficit		(38.3)	(54.9)	(14.2)	(10.4)	117.8
Cumulative mismatch		(38.3)	(93.2)	(107.4)	(117.8)	–

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk (continued)

Asset and liability mismatch risk (continued)

Consolidated balance sheet

$ million – 2004	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
		Maturity date or contractual re-pricing date				
Exposed to fair value risk						
Debt & other securities	992.7	138.2	42.8	77.4	118.6	615.6
Cash	21.5	21.5				
Reinsurers' share of technical provisions	227.4	56.8	32.5	25.6	35.1	77.4
Other assets	147.5	129.3				18.2
Total assets	1,389.1	345.8	75.3	103.1	153.7	711.2
Technical provisions	(1,149.5)	(287.0)	(164.3)	(129.5)	(177.3)	(391.4)
Other liabilities	(154.8)	(154.8)				
Equity	(84.8)					(84.8)
Total liabilities and equity	(1,389.1)	(441.8)	(164.3)	(129.5)	(177.3)	(476.2)
Mismatch – surplus/ deficit		(96.0)	(88.9)	(26.5)	(23.6)	235.0
Cumulative mismatch		(96.0)	(185.0)	(211.4)	(235.0)	–

The analysis of assets and liabilities by maturity has been prepared on the following basis:

- Assets are disclosed according to the date of maturity;
- Net liabilities, represented as discounted cash flows, are disclosed according to the timing of payment; and
- Equity is disclosed as being payable in more than five years.

This basis of disclosure gives the impression that the assets have a longer duration than the liabilities and causes the mismatches implied by the analysis. In practice, CX Re mitigates its exposure to interest rate movements by broadly matching the duration of its assets and liabilities by comparing the discounted cash flows from its cash and investments (principal and interest) according to the period in which such cash flows arise.

Currency risk

The Group reports its results in US Dollars and accordingly, to the extent that shareholders' funds are invested in assets denominated in currencies other than US Dollars, exchange gains or losses may arise on translation.

The Group controls its currency risk by investing in assets that match the currency in which it expects related insurance liabilities to be paid and by investing the majority of assets backing shareholder funds in US Dollars.

As at 31 December 2006 the Group estimates that 55 per cent. of shareholders' funds consists of USD.

5. SEGMENTAL INFORMATION

Primary segment information – operating results by operating segment

The Group has 3 primary segments:

- Underwriting Run-off
- Run-off Management Services
- Other Corporate Activities

Depreciation and capital expenditure shown below related solely to the run-off management segment:

	2006 *$m*	*2005* *$m*	*2004* *$m*
Depreciation	0.4	0.3	0.3
Capital Expenditure	0.2	0.2	2.9

Year ended 31 December 2006	*Under-writing Run-off* *$m*	*Run-off Manage-ment* *$m*	*Other Corporate Activities* *$m*	*Elimi-nations* *$m*	*Total* *$m*
Continuing Operations					
Revenue – Fee Income		28.6		(6.7)	21.9
Cost of Sales		(24.3)		5.7	(18.6)
Gross Profit/(Loss)	–	4.3	–	(1.0)	3.3
Administrative Expenses		(4.3)			(4.3)
Other Income			0.1		0.1
Share of results of associates			5.6		5.6
Operating Profit/(Loss)	–	–	5.7	(1.0)	4.7
Finance Costs		(0.2)			(0.2)
Finance Income		0.6			0.6
Profit/(Loss) before tax	–	0.4	5.7	(1.0)	5.1
Income Tax					–
Profit/(Loss) for the year from continuing operations	–	0.4	5.7	(1.0)	5.1
Profit/(Loss) for the year from discontinued operations	(9.7)		57.6		47.9
Profit/(Loss) for the period	(9.7)	0.4	63.3	(1.0)	53.0

5. SEGMENTAL INFORMATION (continued)

Primary segment information – operating results by operating segment (continued)

Year ended 31 December 2005	*Underwriting Run-off $m*	*Run-off Management $m*	*Other Corporate Activities $m*	*Eliminations $m*	*Total $m*
Continuing Operations					
Revenue – Fee Income		26.4		(26.4)	–
Cost of Sales		(22.0)		20.4	(1.6)
Gross Profit/(Loss)	–	4.4	–	(6.0)	(1.6)
Administrative Expenses		(1.4)			(1.4)
Other Income					–
Share of results of associates					–
Operating Profit/(Loss)	–	3.0	–	(6.0)	(3.0)
Finance Costs		(0.9)			(0.9)
Finance Income		1.3			1.3
Profit/(Loss) before tax	–	3.4	–	(6.0)	(2.6)
Income Tax					–
Profit/(Loss) for the year from continuing operations	–	3.4	–	(6.0)	(2.6)
Profit/(Loss) for the year from discontinued operations	6.4				6.4
Profit/(Loss) for the period	6.4	3.4	–	(6.0)	3.8

Year ended 31 December 2004	*Underwriting Run-off $m*	*Run-off Management $m*	*Other Corporate Activities $m*	*Eliminations $m*	*Total $m*
Continuing Operations					
Revenue – Fee Income		27.5		(27.5)	–
Cost of Sales		(21.9)		15.9	(6.0)
Gross Profit/(Loss)	–	5.6	–	(11.6)	(6.0)
Administrative Expenses		(1.6)			(1.6)
Other Income					–
Share of results of associates					–
Operating Profit/(Loss)	–	4.0	–	(11.6)	(7.6)
Finance Costs		(0.8)			(0.8)
Finance Income		3.1			3.1
Profit/(Loss) before tax	–	6.3	–	(11.6)	(5.3)
Income Tax					–
Profit/(Loss) for the year from continuing operations	–	6.3	–	(11.6)	(5.3)
Profit/(Loss) for the year from discontinued operations	(25.2)				(25.2)
Profit/(Loss) for the period	(25.2)	6.3	–	(11.6)	(30.5)

5. SEGMENTAL INFORMATION (continued)

Primary segment information – balance sheet by operating segment

	Under-writing Run-off	*Run-off Management*	*Other Corporate Activities*	*Total*
Year ended 31 December 2006	*$m*	*$m*	*$m*	*$m*
Property, plant and equipment		0.8		0.8
Reinsurers' share of technical provisions			–	
Investments				–
Other assets		9.4	136.8	146.2
Total assets				147.0
Technical Provisions				–
Other liabilities & equity		4.3	142.7	147.0
Total liabilities & equity				147.0
Year ended 31 December 2005	*$m*	*$m*	*$m*	*$m*
Property, plant and equipment		1.0		1.0
Reinsurers' share of technical provisions	149.9			149.9
Investments	636.7			636.7
Other assets	63.9	12.7	18.2	94.8
Total assets				882.4
Technical Provisions	709.2			709.2
Other liabilities & equity	76.2	7.2	89.8	173.2
Total liabilities & equity				882.4
Year ended 31 December 2004	*$m*	*$m*	*$m*	*$m*
Property, plant and equipment		2.5		2.5
Reinsurers' share of technical provisions	227.4			227.4
Investments	992.7			992.7
Other assets	137.9	0.6	28.0	166.5
Total assets				1,389.1
Technical Provisions	1,149.5			1,149.5
Other liabilities & equity	145.0		94.6	239.6
Total liabilities & equity				1,389.1

5. SEGMENTS (continued)

Secondary segment information – Geographical analysis

All of the Group's revenue is derived from providing services to UK entities and the assets and liabilities are not managed on a geographical basis. Accordingly no geographical segmental information has been provided.

6. REVENUE

Revenue comprises fees related to the provision of insurance run-off management and related consultancy services.

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Management and consultancy fees	3.3	–	–
Expense recharges	18.6	–	–
Revenue	21.9	–	–

7. INTERESTS IN ASSOCIATES

On 21 March 2006, the Company disposed of 87.35 per cent. of its shareholding in CX Re. The retained shareholding of 12.65 per cent. has been accounted for under the equity method since that date. The Company retains 49.95 per cent. of the voting shares. The following table provides a summary of the financial results and position of CX Re for the period 21 March 2006 to 31 December 2006:

	2006
Associate: CX Re	*$m*
Gross premiums written	2.8
Profit for the period 21/03/06 to 31/12/06	44.0
Total Assets	569.3
Total Liabilities	(471.3)
Equity	98.0
Share of profit at 12.65%	5.6
Carrying value of associate at 31/12/06	12.6

8. FINANCE COSTS

	2006 $m	2005 $m	2004 $m
Interest on borrowings	0.2	0.9	0.8

9. FINANCE INCOME

	2006 $m	2005 $m	2004 $m
Cash and cash equivalents interest income	0.6	1.3	3.1

All interest income from investments in cash and cash equivalents were realised at year end.

10. INCOME TAX

	2006 $m	2005 $m	2004 $m
Current Tax (discontinued activities)	(2.3)	–	–
Deferred Tax (continuing and discontinuing activities)	–	–	–

10. INCOME TAX (continued)

UK corporation tax is calculated at 30 per cent. (2005 & 2004: 30 per cent.) of the estimated assessable UK profit for the year. The tax charge for the periods presented varied from the stated rate of UK corporation tax as explained below:

Continuing Operations	*2006* *$m*	*2005* *$m*	*2004* *$m*
Profit on ordinary activities before taxation	5.1	(2.6)	(5.3)
Standard Corporation Tax at 30%	1.5	(0.8)	(1.6)
Factors affecting tax charge:			
Utilisation of tax losses in respect of which no deferred tax assets were provided	(1.5)	0.8	1.6
Tax (credit)/charge for the year	–	–	–

Discontinued Operations	*2006* *$m*	*2005* *$m*	*2004* *$m*
Profit on ordinary activities before taxation	(12.0)	6.4	(25.2)
Standard Corporation Tax at 30%	(3.6)	1.9	(7.6)
Factors affecting tax charge:			
Expenses not deductible for tax purposes	–	0.3	0.3
Section 107 interest	(1.4)	(3.7)	(3.3)
Change in technical reserves disclaimed under FA2000 s107(4)	(2.7)	(27.6)	7.2
Movement in unrecognised deferred tax asset	8.1	–	–
Group/consortium relief recoverable at non-standard rates	(0.4)	29.1	3.4
Adjustment in respect of prior periods	(2.3)	–	–
Tax credit for the year	(2.3)	–	–

The group has not recognised any deferred tax assets or liabilities.

At 31 December 2006 the Group had unrecognised deferred tax assets of $0 (31 December 2005: $122.9 million; 31 December 2004: $150.5 million) in respect of tax losses carried forward. The deferred tax losses belonged to CX Re, the majority of which shares were disposed of on 21 March 2006.

11. DISCONTINUED OPERATIONS

On 21 March 2006, the Company sold a significant proportion (87.35 per cent.) of its "A" shareholding in CX Reinsurance Company Limited to a consortium in which Tawa UK participates. Following disposal, the equity accounting method has been adopted. The majority of the consideration receivable is in the form of deferred consideration. The income statement, balance sheet and cash flow information arising from discontinued operations are presented on the following pages.

		Period ending	
	2006	*2005*	*2004*
Income Statement	*$m*	*$m*	*$m*
Insurance premium revenue	0.2	4.6	22.0
Insurance premium ceded to reinsurers	–	6.8	3.5
	0.2	11.4	25.5
Investment income	(1.7)	32.8	52.7
Other income	2.6	2.8	(2.9)
Total income	1.1	47.0	75.3
Insurance claims and loss adjustment expenses	(12.5)	(6.1)	(63.1)
Insurance claims and loss adjustment expenses recovered from reinsurers	(0.6)	(34.5)	(37.4)
Net insurance claims	(13.1)	(40.6)	(100.5)
Results of operating activities	(12.0)	6.4	(25.2)
Finance costs	–	–	–
Profit/(Loss) before tax	(12.0)	6.4	(25.2)
Tax charge	2.3	–	–
Profit/(Loss) for the year after tax	(9.7)	6.4	(25.2)
Profit on sale of investment	38.2	–	–
Other income on sale of investment (see below)	19.4	–	–
Profit/(Loss) for the year	47.9	6.4	(25.2)

Other income on sale of investment related to the receipt of a transaction facilitation fee by the Group with regards to sale of certain of the group's tax losses.

No tax is payable on the profit or other income on sale of investment.

11. DISCONTINUED OPERATIONS (continued)

		Period ending	
	20/03/06	*2005*	*2004*
Cash Flow Information	*$m*	*$m*	*$m*
Cash (used in)/generated from operations	(46.3)	(395.8)	(267.0)
Income tax recovered/(paid)	–	–	–
Net cash (used in)/generated from operating activities	(46.3)	(395.8)	(267.0)
Cash payments to acquire equity and debt securities	(88.0)	(800.2)	(472.8)
Cash receipts from sale of equity and debt securities	125.6	1,189.4	756.2
Cash receipts from interest and dividends	–	0.8	0.4
Net cash generated from/(used in) investing activities	37.6	390.0	283.8
Cash flows (used in)/generated from financing activities	–	–	–
Net increase/(decrease) in cash and cash equivalants	(8.7)	(5.8)	16.8
Cash and cash equivalents at beginning of year	14.3	20.1	3.3
Cash and cash equivalents at end of year	5.6	14.3	20.1

11. DISCONTINUED OPERATIONS (continued)

		As at	
	20/03/06	*2005*	*2004*
Balance Sheet	*$m*	*$m*	*$m*
Loans and Receivables	49.9	52.9	120.5
Investments	597.8	636.7	992.7
Reinsurers' Share of Technical Provisions	119.6	149.9	227.4
Cash and cash equivalents	5.6	14.3	20.1
Total assets	772.9	853.8	1,360.7
Share capital	513.2	513.2	513.2
Share premium	11.3	11.3	11.3
Retained earnings	(470.5)	(459.4)	(461.0)
Equity	54.0	65.1	63.5
Creditors arising out of direct insurance operations	2.9	1.6	3.6
Creditors arising out of reinsurance operations	68.6	69.2	135.1
Other liabilities and charges	9.5	8.7	9.0
Technical Provisions	637.9	709.2	1,149.5
Total liabilities	772.9	853.8	1,360.7

Proceeds on disposal (deferred)	85.4
Less: Net assets disposed	(47.2)
Profit on sale	38.2
Cash inflow on disposal	–

12. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year has been arrived after charging:

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Depreciation of property, plant and equipment	0.4	0.3	0.3
Staff costs (see Note 23)	17.9	15.3	9.7

12. PROFIT/(LOSS) FOR THE YEAR (continued)

Directors' Emoluments

2006	*Fees as directors $m*	*Other Emoluments $m*	*Company pension contributions $m*	*Compensation for loss of office $m*	*Total $m*	*Highest paid directors' emoluments $m*
Services as directors of the company	0.4	–	–	–	0.4	0.1
Services as directors of subsidiaries	0.3	–	–	–	0.3	0.1
					0.7	

2005	*Fees as directors $m*	*Other Emoluments $m*	*Company pension contributions $m*	*Compensation for loss of office $m*	*Total $m*	*Highest paid directors' emoluments $m*
Services as directors of the company	0.3	–	–	–	0.3	0.1
Services as directors of subsidiaries	0.3	–	–	–	0.3	0.1
					0.6	

2004	*Fees as directors $m*	*Other Emoluments $m*	*Company pension contributions $m*	*Compensation for loss of office $m*	*Total $m*	*Highest paid directors' emoluments $m*
Services as directors of the company	0.4	–	–	–	0.4	0.4
Services as directors of subsidiaries	0.4	–	–	–	0.4	0.1
					0.8	

Auditors' remuneration

The following fees, included in the profit/(loss) from discontinued operations were incurred directly by CX Re in respect of audit and related services set out below and paid to Deloitte & Touche LLP:

	2006 $m	*2005 $m*	*2004 $m*
Audit Services	0.7	0.4	0.4
Valuation & Actuarial Services	0.2	0.2	0.3
	0.9	0.6	0.7

The following fees were paid to KPMG in respect of audit work related to the Company and its other subsidiaries and included in the results from continuing operations:

	2006 $m	*2005 $m*	*2004 $m*
Audit Services	0.1	–	–

13. EARNINGS PER SHARE

The Company's share capital consists of both Deferred and Preferred shares, as detailed in note 21. The Preferred shareholders are entitled to cumulative profit distributions (totalling $68.8m at 31 December 2006) before any distributions to the Deferred shareholders. The Preferred shareholders are entitled to 80 per cent. of any subsequent profit distributions and the Deferred shareholders to 20 per cent. of such further distributions.

As regards income, the preferred shares are entitled to a preferential dividend, calculated by applying a formula to the profits resolved to be distributed, with any remaining profit resolved to be distributed being split between the preferred and the deferred shares. As regards capital, on a return of assets on winding up, the structure of the payments to holders of each class of shares is similar to the structure for income – first a payment to the preferred shareholders and then any balance split between the preferred and deferred. In addition the preferred shares can vote on all matters, whereas there are restrictions on the voting rights of the deferred shareholders and there are no restrictions on the transfer of the preferred shares, whereas there are restrictions on the transfer of the deferred shares. Therefore, only the deferred shares are to be treated as "ordinary shares" for the purposes of calculating earnings per share.

Earnings	*2006* *$m*	*2005* *$m*	*2004* *$m*
Earnings from continuing and discontinued operations	53.0	3.8	(30.5)
Amount attributable to preferred shareholders	(49.7)	(3.8)	30.5
Earnings for the purposes of basic earnings per share from continuing and discontinued operations being net profit attributable to deferred shareholders of the company	3.3	–	–
Earnings from continuing operations	5.1	(2.6)	(5.3)
Amount attributable to preferred shareholders	(4.8)	2.6	5.3
Earnings for the purposes of basic earnings per share from continuing operations being net profit attributable to deferred shareholders of the company	0.3	–	–

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

Number of shares	*2006*	*2005*	*2004*
Weighted average number of Deferred shares for the purposes of basic & diluted earnings per share	2,000	2,000	2,000

Basic Earnings per share	*2006* *$*	*2005* *$*	*2004* *$*
From continuing and discontinued operations			
Deferred Shares (dollars per share)	1,650.0	–	–
From continuing operations			
Deferred Shares (dollars per share)	150.0	–	–

14. CASH & CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following:

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Cash at bank and in hand	5.7	23.5	21.5

15. INVESTMENTS: DEBT AND EQUITY SECURITIES

	2006	*2005*	*2004*
Fair Value through income statement	*$m*	*$m*	*$m*
Debt Securities	–	540.7	799.6
Deposits with credit institutions	–	32.3	85.8
Listed variable yield securities & unit trusts	–	63.7	107.3
	–	636.7	992.7

The investments included above represent investments in listed equity securities and listed debt securities. The fair values of these investments are based on bid market prices. Fair value adjustments were made through the income statement.

The average duration of the portfolio on 2006 was 4.7 years (2005: 5.6 years & 2004: 5.5 years).

16. LOANS AND RECEIVABLES

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Debtors arising out of insurance operations	–	0.3	1.0
Debtors arising out of reinsurance operations	–	38.7	102.9
Accrued Income & Prepayments	0.8	11.0	14.7
Other debtors	2.9	3.1	8.2
Total loans and receivables including insurance receivables	3.7	53.1	126.8
Current assets	3.7	53.1	126.8

17. TECHNICAL PROVISIONS

Gross claims outstanding	*Uncon-solidated 2006 $m*	*Consolidated 2006*	*2005 $m*	*2004 $m*
Provision for claims outstanding, reported and not reported	555.7	–	926.4	1,448.1
Discount	(165.6)	–	(254.8)	(362.0)
	390.1	–	671.6	1,086.1
Claims handling provisions	24.8	–	37.6	63.4
Total gross claims outstanding	414.9	–	709.2	1,149.5
Reinsurance				
Provision for claims outstanding, reported and not reported	146.7	–	213.8	318.7
Discount	(49.5)	–	(63.9)	(91.3)
Total reinsurers' share of claims outstanding	97.2	–	149.9	227.4
Undiscounted claims outstanding, net of reinsurance	433.8	–	750.2	1,192.8
Discount	(116.1)	–	(190.9)	(270.7)
Claims outstanding net of reinsurance	317.7	–	559.3	922.1
Security held for reinsurance				
Cash deposits received from reinsurers	–	–	0.4	0.5
Letters of credit held	0.8	–	1.1	2.2
Total collateral held	0.8	–	1.5	2.7

The technical provisions are all within CX Re which was consolidated at 31 December 2004 and 2005 and equity accounted at 31 December 2006, following the disposal of the majority of the Company's shareholding in CX Re on 21 March 2006

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.

17. TECHNICAL PROVISIONS (continued)

Prior year reserve development

CX Re's expected loss development is determined by the Group's internal actuaries based on historical claims analysis and projected trends. Actual reported losses may vary from expected loss development. Generally, as an underwriting year matures, the level of newly reported claims decreases. During the twelve months ended 31 December 2006 CX Re experienced an improvement in the prior year net reserves before discount excluding commutations of $45 million (2005 $37m $ 2004: $1m improvements). The following table presents the development of CX Re's claims outstanding and claims handling expense reserves net of reinsurance and after discounting:

Reserve Movements	*2002* *$m*	*2003* *$m*	*2004* *$m*	*2005* *$m*	*2006* *$m*
Net discounted reserves at beginning of year	1,184.0	1,323.0	1,153.0	922.1	559.3
Impact of changes in foreign exchange rates	30.0	65.0	33.0	(32.0)	21.0
Net claims paid	(7.0)	(293.0)	(364.0)	(365.0)	(299.0)
Increase/(Decrease) in ultimates for net claims before discounting	381.0	49.0	(1.0)	(37.0)	(45.0)
Change in the impact of discounting	(265.0)	9.0	101.1	71.2	81.4
Net discounted reserves at end of year	1,323.0	1,153.0	922.1	559.3	317.7

18. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment $m	*Fixtures and fittings $m*	*Company Flats $m*	*Total $m*
Cost or Valuation				
At 1 January 2004	–	–	–	–
Additions	0.4	1.1	1.5	3.0
At 31 December 2004	0.4	1.1	1.5	3.0
Additions	0.1	0.0		0.1
Disposals	–	–	(1.5)	(1.5)
At 31 December 2005	0.5	1.1	–	1.6
Additions	0.2	–	–	0.2
At 31 December 2006	0.7	1.1	–	1.8
Accumulated depreciation and impairment				
At 1 January 2004	–	–	–	–
Charge for the year	0.1	0.2	0.0	0.3
Impairment loss	–	–	0.2	0.2
At 31 December 2004	0.1	0.2	0.2	0.5
Charge for the year	0.2	0.1		0.3
Eliminated on disposals	–	–	(0.2)	(0.2)
At 31 December 2005	0.3	0.3	–	0.6
Charge for the year	0.2	0.2	–	0.4
At 31 December 2006	0.5	0.5	–	1.0
Carrying amount				
At 31 December 2006	0.2	0.6	–	0.8
At 31 December 2005	0.2	0.8	–	1.0
At 31 December 2004	0.3	0.9	1.3	2.5

19. DEFERRED ASSETS

Deferred assets relate to the consideration outstanding on the disposal of CX Re, as described in notes 2 and 4. Part of the deferred consideration is related to the net asset value of CX Re and is subject to net asset value adjustments through the income statement. Deferred consideration consists of $20.6m in respect of a transaction facilitation fee and $85.4m of proceeds on the disposal of CX Re, a total of $106m.

20. GOODWILL

	2006 $m	2005 $m	2004 $m
Cost at 1 January and 31 December	18.2	18.2	18.2
Carrying value at 1 January and 31 December	18.2	18.2	18.2

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to the run-off services segment. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations.

21. SHARE CAPITAL

	2006 Number '000	2006 $m	2005 Number '000	2005 $m	2004 Number '000	2004 $m
Authorised:						
Preferred shared of £0.10	1,499,990	293.9	1,499,990	293.9	1,499,990	293.9
Deferred shares of £0.10	10,000	–	10,000	–	10,000	–
Total authorised	1,509,990	293.9	1,509,990	293.9	1,509,990	293.9
Allotted, called up and fully paid:						
Preferred shared of £0.10	29,200	57.2	29,200	57.2	29,200	57.2
Deferred shares of £0.10	2	–	2	–	2	–
Total allotted, called up and fully paid	29,202	57.2	29,202	57.2	29,202	57.2

22. OTHER LIABILITIES

	2006 $m	2005 $m	2004 $m
Accruals	0.7	1.2	0.6
Other creditors	3.8	12.8	10.7
Short-term loans	–	–	4.8
	4.5	14.0	16.1

23. STAFF COSTS

The average monthly number of employees (including Executive Directors) was:

	2006	*2005*	*2004*
Claims and commutations management	35	34	30
Reinsurance	6	6	5
Consulting	5	5	4
Actuarial	6	6	5
Executive and management	11	11	10
Support	34	32	30
	97	94	84

Their aggregate remuneration comprised:

	2006 *$m*	*2005* *$m*	*2004* *$m*
Wages and salaries	13.5	11.8	7.4
Social security costs	1.9	1.6	0.9
Other pension costs (see note 26)	1.6	0.9	0.8
Training, Entertaining & Other	0.8	0.9	0.6
	17.8	15.2	9.7

24. RESERVES

	Share Capital *$m*	*Retained Earnings* *$m*	*Total* *$m*
As at 1 January 2004	57.2	5.8.7	115.9
Loss for the year	–	(30.5)	(30.5)
Translation loss – gross	–	(0.6)	(0.6)
As at 31 December 2004	57.2	27.6	84.8
As at 1 January 2005	57.2	27.6	84.8
Profit for the year	–	3.8	3.8
Translation loss – gross	–	(0.2)	(0.2)
As at 31 December 2005	57.2	31.2	88.4
As at 1 January 2006	57.2	31.2	88.4
Profit for the year	–	53.0	53.0
Translation gains – gross	–	1.1	1.1
As at 31 December 2006	57.2	85.3	142.5

25. CASH (USED IN)/GENERATED FROM OPERATIONS

	2006 – $m			*2005 – $m*			*2004 – $m*		
	Continuing	*Discontinued*	*Total*	*Continuing*	*Discontinued*	*Total*	*Continuing*	*Discontinued*	*Total*
Profit/(Loss) for the year	5.1	47.9	53.0	(2.6)	6.4	3.8	(5.3)	(25.2)	(30.5)
Adjustments for:									
– depreciation	0.4	–	0.4	0.1	–	0.1	0.3	–	0.3
– (additions)/disposals of fixed asset	25.3	–	25.3	1.3	–	1.3	(13.3)	–	(13.3)
– impairment loss recognised in respect of property, plant and equipment	–	–	–	–	–	–	0.1	–	0.1
Net cash flows for the period transferred to investing activities	–	(6.2)	(6.2)	–	(34.6)	(34.6)	16.2	(52.1)	(35.8)
Loss/(profit) on foreign exchange	–	7.6	7.6	–	(0.8)	(0.8)	–	(2.5)	(2.5)
Change in operating assets and liabilities	30.8	49.2	80.0	(1.1)	(29.0)	(30.1)	(1.9)	(79.8)	(81.7)
Net (decrease)/increase in insurance liabilities	–	(42.1)	(42.1)	–	(365.9)	(365.9)	–	(184.0)	(184.0)
Net (increase) decrease in loans and receivables	(35.1)	(54.2)	(89.3)	6.9	2.7	9.6	5.0	0.1	5.0
Net (decrease)/increase in other operating liabilities	0.2	0.8	1.0	0.4	(3.6)	(3.2)	(3.4)	(3.3)	(6.7)
Check to cash (used in)/generated from operations	(4.1)	(46.3)	(50.4)	6.2	(395.8)	(389.6)	(0.4)	(267.0)	(267.4)

26. RETIREMENT BENEFIT SCHEME

Defined contribution schemes

The employees of the Group are covered by defined contribution schemes the costs of which are charged to the income statement when incurred. The total cost of retirement benefits for the Group in the year ended 31 December 2006 was $1.6 million (31 December 2005: $0.9 million; 31 December 2004: $0.8 million).

27. OPERATING LEASES

At the following balance sheet dates, the Group was committed to paying total future minimum lease payments under non-cancellable operating leases in each of the following periods:

	Land & buildings
	$m
2004	
– within one year	1.6
– between two and five years	2.2
– over five years	–
	3.8
2005	
– within one year	1.2
– between two and five years	1.9
– over five years	–
	3.1
2006	
– within one year	–
– between two and five years	–
– over five years	–
	–

28. GROUP COMPANIES

The consolidated financial information presents the financial record of the Group for the years ended 31 December 2006, 31 December 2005 and 31 December 2004. A list of all investments in Group subsidiaries, including the name and country of incorporation is given below:

On 21 March 2006, the Company sold the majority of its shareholding CX Re to a consortium in which Tawa UK participates. The majority of the consideration receivable is in the form of deferred consideration. Since that date CX Re has been accounted for under the equity method as the company retained a 49.95 per cent. voting interest.

Name of subsidiary	*Place of incorporation (or registration) and operation*	*Portion of ownership interest*	*Portion of voting power held*	*Method used to account for investment*
Tawa Associates Limited	England	100%	100%	Consolidation
Tawa Management Limited	England	100%	100%	Consolidation
Tawa Management (Bermuda) Limited	Bermuda	100%	100%	Consolidation

29. BUSINESS COMBINATIONS

On 4 May 2004, the Group acquired 100 per cent. of the issued preferred share capital of Tawa Associates Limited, a consulting and holding company. The table below shows the consideration paid, the net assets at fair values (considered equal to carrying values) and the goodwill arising on acquisition, which was attributed to value of future income from the acquired's subsidiary, Tawa Management.

	$m
Cost	17.2
Less:	
Assets	4.1
Liabilities	(5.1)
Net liabilities at fair value	(1.0)
Goodwill on acquisition	18.2

Since acquisition, the acquired company and its subsidiary have contributed losses of $5.4m after the elimination of intra-group income and expenses. Annual impairment reviews are undertaken and the Group's directors are satisfied that the trading prospects of the subsidiaries support the current carrying values.

30. RELATED PARTY TRANSACTIONS

Associate – CX Reinsurance Company Limited

One of the Company's subsidiaries, Tawa Management Limited, provides insurance run-off management services to CX Reinsurance Company Limited, an associate of the Group in which the company has a 12.65 per cent. share interest and a 49.95 per cent. voting interest.

Run-off services are provided on a negotiated fee basis, the terms and pricing of which are at arm's length and approved by the FSA. Run-off management expenses are recharged at cost.

For the period 21 March 2006 to 31 December 2006, a run-off management fee of $3.8m was charged to CX Re by the Group. Expenses recharged at cost amounted to $18.2m.

Parent – Financiere Pinault

Loans made to the group by Financiere Pinault:

	$m
2004	
Balance as at 1 January 2004	4.9
Interest	0.2
Balance at 31 December 2004	5.1
2005	
Balance as at 1 January	5.1
Interest	0.1
Repayment of loan	(5.2)
Balance at 31 December 2005 and 2006	0.0

The loan from Financiere Pinault was subject to a general treasury agreement for the Financiere Pinault group. Interest was payable at LIBOR + 1 per cent.

For each of the years 2004 to 2006, the Group paid $0.1 million to Financiere Pinault for the services of one employee.

The Group is a party to a cash management agreement with Financiere Pinault which contains the terms and conditions regulating the transactions described above.

30. RELATED PARTY TRANSACTIONS (continued)

Affiliated Company – Christie's plc (subsidiary of Parent)

In relation to the years from 2004 to 2006, CX Re expects to surrender $190 million of tax losses as group relief. The total income recognised for this surrender in the income statement for CX Re was $25.5 million in 2006.

Key Management Personnel

The Group considers its key management personnel to include its Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations.

Remuneration of key management personnel

The remuneration of the Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. For year ended 31 December 2006 this included 14 individuals (2005 & 2004: 14 individuals)

Management Remuneration	*2006* *$m*	*2005* *$m*	*2004* *$m*
Short-term employee benefits	3.2	3.1	3.7
Post-employment benefits	0.4	–	–
Other long-term benefits	–	–	–
Termination Benefits	–	–	–
Share-based payment	–	–	–
	3.6	3.1	3.7

Share and loan transactions with members of key management

As at 31 December 2006, the Group had one loan to key management (2005 & 2004: no loans) which comprised a travel loan to Mr. P Singer. The amount outstanding at 31 December 2006 was $2,552.

No share transactions with key management took place in 2006, 2005 or 2004.

Immediate and ultimate parent company

In the opinion of the Directors, the immediate and ultimate parent company is Financière Pinault S.C.A., a company incorporated in France. 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.

31. CONTINGENT LIABILITIES

Some of the Group's subsidiaries are routinely involved in litigation or potential litigation related to primarily the settlement of insurance claims liabilities. However, none of such actual or proposed litigation that had not been provided for met the definition of a contingent liability. Consequently, the group had no insurance related, or other, contingent liabilities as at 31 December 2006 (2005 & 2004: no contingent liabilities).

32. POST BALANCE SHEET EVENTS

The Group acquired the entire share capital of KX Reinsurance Company Limited in May 2007, for a consideration of approximately $65m.

33. TRANSITION TO IFRS

As part of the transition from UK GAAP to IFRS, the following changes have been effected:

- The accounts have been prepared as consolidated accounts, incorporating the results and net assets of the Company's subsidiaries
- The Company has chosen the exemption under IFRS 1 not to reconsider business combinations prior to the date of transition
- The Company has chosen to retain the value of property, plant and equipment as under prior GAAP and not to revalue them

PART IV(B)(i)

ACCOUNTANT'S REPORT ON KX REINSURANCE COMPANY LIMITED

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Chartered Accountants

20 July 2007

The Board of Directors
on behalf of Tawa plc
The London Underwriting Centre
3 Minster Court
Mincing Lane
London EC3R 7DD

KBC Peel Hunt Limited
111 Old Broad Street
London EC2N 1PH

Dear Sirs

KX Reinsurance Company Limited

We report on the financial information set out in Part IV(B)(ii) of this document dated 20 July 2007 of Tawa plc (the "Company" and, together with its subsidiaries, the "Group") (the "Admission Document"). This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in note 3 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation) as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

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

Save for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex 1 item 23.1 of the Prospectus Directive Regulation as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

Basis of opinion

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

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of KX Reinsurance Company Limited as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 2.

Declaration

For the purposes of annex 1 (item 1.2) of the Prospectus Directive Regulations as applied by paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

PART IV(B)(ii)

FINANCIAL INFORMATION ON KX REINSURANCE COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

(For the year ended 31 December)	*Note*	*2006* *$m*	*2005* *$m*	*2004* *$m*
Insurance premium revenue		0.1	0.1	0.1
Insurance premium ceded to reinsurers		(0.1)	(0.2)	(0.2)
		–	(0.1)	(0.1)
Investment income	5	3.4	5.8	3.0
Other income	6	3.7	8.3	0.9
Net income		7.1	14.0	3.8
Insurance claims and loss adjustment expenses		18.0	(57.1)	4.6
Insurance claims and loss adjustment expenses recovered from reinsurers		1.2	52.1	(14.3)
Net insurance claims		19.2	(5.0)	(9.7)
Realised losses on investments		(0.9)	(1.5)	–
Unrealised losses on investments		(3.0)	(0.3)	(2.4)
Profit from operating activities		22.4	7.2	(8.3)
Tax charge	7	–	–	(0.4)
Profit for the year from continuing operations		22.4	7.2	(8.7)
Profit for the year from discontinued operations	8	–	–	1.2
Profit for the year	9	22.4	7.2	(7.5)
Attributable to:				
Equity holders of the Company		22.4	7.2	(7.5)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

(For the year ended 31 December)	*Notes*	*2006* *$m*	*2005* *$m*	*2004* *$m*
Currency translation differences		1.5	(12.8)	21.9
Change in value of discontinued subsidiary	8	7.6	0.0	0.0
Net income recognised directly in equity		9.1	(12.8)	21.9
Profit for the year		22.4	7.2	(7.5)
Total recognised income and expense for the year attributable to equity holders of the Company		31.5	(5.6)	14.4

CONSOLIDATED BALANCE SHEET

(As at 31 December)	*Notes*	*2006* *$m*	*2005* *$m*	*2004* *$m*
Assets				
Cash and cash equivalents	10	31.7	26.8	26.6
Investments: Debt & equity securities	11	113.9	114.6	101.6
Loans and receivables including insurance receivables	12	8.8	26.2	36.1
Reinsurers' share of technical provisions	13	93.9	70.6	50.3
Total assets		248.3	238.2	214.6
Equity				
Share capital	14	74.2	100.0	97.0
Capital contribution	15	47.9	48.0	48.0
Share premium account	15	5.0	5.0	5.0
Retained loss	15	(10.6)	(42.1)	(36.5)
Total equity attributable to equity holders		116.5	110.9	113.5
Liabilities				
Creditors arising out of reinsurance operations		7.9	15.8	6.2
Other liabilities	16	23.5	3.6	7.8
Technical provisions	13	100.4	107.9	87.1
Total liabilities		131.8	127.3	101.1
Total liabilities & equity		248.3	238.2	214.6

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 31 December)	*Note*	*2006* *$m*	*2005* *$m*	*2004* *$m*
Cash (used in)/generated from operations	17	9.5	(1.2)	(4.2)
Income tax paid		–	–	(0.4)
Net cash (used in)/generated from operating activities		9.5	(1.2)	(4.6)
Cash proceeds/(payments) from sale/ acquisition of equity and debt securities		21.2	0.1	2.0
Net cash generated from/(used in) investing activities		21.2	0.1	2.0
Repurchases of ordinary shares		(25.8)	–	–
Proceeds from insuance of ordinary shares		–	1.3	–
Cash flows (used in)/generated from financing activities		(25.8)	1.3	–
Net increase/(decrease) in cash and cash equivalants		4.9	0.2	(2.6)
Cash and cash equivalents at beginning of year		26.8	26.6	29.2
Cash and cash equivalents at end of year		31.7	26.8	26.6

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

These financial statements comprise KX Reinsurance Company Limited (the "Company") and its subsidiary, Continental Insurance Holdings (Europe) Limited (together the "Group"). The Company stopped actively underwriting third party insurance business in 1993 but continued to manage the run-off of its own insurance and reinsurance contracts until May 2007, when the Company was acquired by KX Re Holdings Limited, a subsidiary of Tawa plc, and the management of its run-off outsourced to Tawa Management Limited, a fellow subsidiary of the Company.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union and therefore the group financial statements comply with Article 4 of EU IAS regulation. The financial statements also comply with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The consolidated financial statements are presented in millions of US dollars, rounded to the nearest hundred-thousand. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through the income statement.

The preparation of financial statements in conformity with IFRS requires management to exercise its judgement in making estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the periods in which the estimates are revised if the revisions affect only those periods or in the periods of the revision and future periods if applicable.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in following years include:

Outstanding claims provisions and related reinsurance recoveries

There is uncertainty as regards the eventual outcome of the claims and related reinsurance recoveries that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified and those that are not yet apparent to the insured. 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 reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

Basis of discounting

The Company's net technical provisions, estimated as set out in note 4 "Analysis of Risk", 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.

2. BASIS OF PREPARATION (continued)

The use of discounted technical provisions in representing the economic position of the Company necessarily depends upon the accuracy of the estimate of:

(i) future claims and expense 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.

Fair value of financial assets- measurement considerations

(i) *Active market: quoted price*

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate.

As IFRS are limited in specifying full insurance-specific guidelines to the requirements of IFRS 4 'Insurance Contracts' pending completion of the second phase of the IASB's project on insurance contracts, accounting policies for insurance contracts have been selected with primary consideration to existing UK GAAP as permitted by IFRS 4. The annual basis of accounting has been applied to all classes of business.

3. ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been applied consistently by all Group entities.

Basis of consolidation

These financial statements consolidate all the enterprises in which the Group controls, directly or indirectly, the majority of the voting shares. There are no other enterprises over which the Group has the ability to exercise control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity.

Intra-group transactions, balances, and gains and losses are eliminated except to the extent that the transaction provides evidence of an impairment of the asset transferred.

The results of subsidiaries liquidated during the year are included in the consolidated income statement up to the effective date of liquidation, as appropriate.

The financial results related to the Group's subsidiary, Continental Insurance Holdings (Europe) Limited pre members voluntary liquidation are included in "Profit from discontinued operations". Subsequent to being placed in administration on 22 June 2005, the subsidiary has been accounted for as an "available for sale" investment as the Company had lost control over the subsidiary. Fair value changes are included in the Statement of Recognised Income and Expense.

3. ACCOUNTING POLICIES (continued)

Foreign currency translation

a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). For the Company, the functional currency has been determined as US dollars. The consolidated financial statements are presented in US dollars, which is the Group's presentation currency.

b) *Transactions and balances*

Premium, claim and commission transactions and investment income during the year are recorded in ledgers denominated in the recognised settlement currencies and translated into US dollars at average rates of exchange during the year. Other revenue transactions are recorded at average rates of exchange during the year. Monetary assets and liabilities are converted into US dollars at the exchange rates prevailing at the balance sheet date.

Non-monetary assets are initially translated at transaction date. Non-monetary items are measured at the average rate applicable when the transaction occurred and not retranslated.

Accounting for insurance contracts

Premium revenue

Written premiums, gross of commission payable to intermediaries, comprise the Group's share of written premiums on contracts entered into during a financial period, regardless of whether such amounts may relate in whole or in part to a later financial period, exclusive of taxes and duties levied on premiums. Premiums written include adjustments to premiums written in prior accounting periods and estimates for pipeline premiums. For inwards proportional reinsurance treaties and certain binding authorities and lineslips, written premium is included in line with anticipated writing patterns of cedants and agents. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

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.

Claims outstanding and loss adjustment expenses

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 provisions for future costs related to the management of the run-off of the portfolio of claims. Where applicable, prudent estimates are made for salvage and subrogation recoveries.

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. Claims outstanding are carried at actuarial "best-estimates".

3. ACCOUNTING POLICIES (continued)

Accounting for insurance contracts (continued)

Discounting

The Company's net technical provisions, estimated as set out in note 4, 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.

Employee Benefits

Pension Cost

The Group participates in a multi-employer defined benefit scheme but accounts for contributions as for a defined contribution scheme as insufficient information is available to account as a defined benefit scheme. Note 20 contains further detailed information.

Operating leases

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

Financial Instruments

The Group recognises a financial asset or a financial liability on its balance sheet when it becomes a party to the contractual provisions of the instrument. On initial recognition the Group determines the category of financial instrument and values it accordingly. The classification depends on the purpose for which the financial instruments are acquired.

a) *Investments (Debt & Equity Securities)*

Debt & Equity securities are non-derivative financial assets. On initial recognition, the fair value is the cost including transaction costs directly attributable to the acquisition. On subsequent remeasurement, the fair value represents the listed bid price. Fair value movements are recognised through the income statement.

b) *Loans and receivables including insurance receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at fair value, using relevant measurement techniques. Annual impairment reviews are undertaken and allowances are made for any permanent impairments.

c) *Available for sale investments*

Changes in the fair value of "available for sale" investments, which are assessed annually, are recognised in the statement of recognised income and expenses.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group does not deal in any derivative transactions.

3. ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Purchases and sales of securities and currencies are recognised on trade date – the date on which the group commits to purchase or sell the asset.

Before evaluating whether, and to what extent, de-recognition of a financial asset or liability is appropriate, the Group determines whether de-recognition should be applied to only part of the financial asset/liability or group of financial assets/liabilities. The Group only derecognises a financial asset or liability when the contractual rights and obligations to the cash flows expire or the financial asset/liabilities are transferred and the Group has also transferred substantially all risks and rewards of ownership.

Gains and losses on derecognition are recognised through the income statement. Changes in fair value of available for sale investments, except for foreign exchange gains and losses and impairment losses which are recognised in the income statement, are directly recorded in equity until such time that the financial asset is derecognised.

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.

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.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets at each balance sheet date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Taxation

Income tax expense represents the sum of the tax payable or receivable in the year and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on all temporary differences, which are based on the difference between the financial statement carrying values and the tax bases of assets and liabilities using enacted income tax rates and laws. Deferred income tax assets are recognised to the extent that it is regarded as probable that they will be utilised against sufficient future taxable income. Deferred income tax assets and liabilities are not discounted.

3. ACCOUNTING POLICIES (continued)

Taxation (continued)

Current tax payable by any Group company on distribution to the holding company of the undistributed profits of any subsidiaries is recognised as deferred tax unless the timing of the distribution of those profits is controlled by the holding company and the temporary difference is not expected to reverse in the foreseeable future.

Current tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Borrowings

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms.

Borrowings are recognised and carried at fair value, net of transaction costs incurred. Changes in fair value are recognised through the income statement.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

Transactions with related parties

IFRS requires all entities to disclose related party transactions. The Group's policy is to have regard to the materiality from both the shareholders' and the related party's perspective.

Accounting Developments

The International Accounting Standards Board (IASB) issued IFRS 7 'Financial Instruments: Disclosures' in August 2005. The standard replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure provisions in IAS 32. IFRS 7 requires disclosure of the significance of financial instruments for an entity's financial position and performance and of quantitative information about exposure to risks arising from financial instruments. The Standard is effective for annual periods beginning on or after 1 January 2007.

Also in August 2005, the IASB issued an amendment 'Capital Disclosures' to IAS 1 'Presentation of Financial Statements'. It requires disclosures about an entity's capital and the way it is managed. This amendment is also effective for annual periods beginning on or after 1 January 2007.

The Company is reviewing IFRS 7 IFRIC 10 and the amendment to IAS 1 to determine their effect on its financial reporting. The standards and interpretation will be adopted with effect from 1 January 2007.

The company is reviewing IFRS 8 "Operating segments" to determine its effect on its financial reporting. The standard will be adopted with effect from 1 January 2009. In addition to the above standards the Company has considered other new international accounting interpretations (IFRIC 8, 9, 11 and 12) issued during the year and has concluded that they will not apply to the Company.

4. ANALYSIS OF RISK

Risk management framework

The Group is exposed to various types of risk as discussed below.

The Board of Directors retains overall responsibility for the risk management framework that has been established to mitigate the Group's exposure to risk. The Board assesses the effectiveness of the controls established to identify, monitor and mitigate the risks faced by the Group.

The risks that the Group faces, or faced during the periods under review, include, but are not limited to:

Insurance risk – risk associated with the uncertainty over the quantum of the claim or the time when claims payments will fall due.

Investment and credit risk – risk associated with the Group's reinsurance arrangements, investment portfolio, and other counter party credit risk.

Financial risk – risk associated with possible future change in one or more of a specified interest rate, financial instrument price, foreign exchange rate or other variable.

Insurance risk

Sources of uncertainty in the estimation of future claim payments

The uncertainty in the financial statements principally arises in respect of the technical provisions of the insurance operations. 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 and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the Group needs to apply sophisticated estimation techniques to determine the appropriate provisions. The Group 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 and external actuaries. The methods used, and the estimates made, are reviewed regularly. The methodology used to project ultimate development for liability classes is reviewed annually.

The provision for claims outstanding and the provision for 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. The use of discounted technical provisions in representing the economic position of the Group necessarily depends upon the accuracy of the 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.

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.

4. ANALYSIS OF RISK (continued)

Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments (continued)

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 reporting of that claim and the payment of the claim and the receipt of reinsurance recoveries.

The following table presents the Group's booked gross claims outstanding before claims handling provisions and before discounting by major risk class:

	Asbestos, Pollution, Latent *$m*	*Other* *$m*	*Total* *$m*
2006	72.9	57.2	130.1
2005	47.3	87.7	135.0
2004	6.3	104.3	110.6

The following table analyses the Group's gross claims outstanding between incurred but not reported ('IBNR') and case reserves at 31 December 2006.

Percentage	*Insurance*	*Reinsurance*
Case reserves	51.4%	46.0%
IBNR	48.6%	54.0%
Total	100.0%	100.0%

Asbestos, pollution and other latent claims

These claims arise from policies issued prior to 1986 on a losses occurring basis. This means that a claim being notified any time after the exposure period would attach back to that exposure period regardless of the length of delay. By their nature 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 Group's portfolio. Significant adverse development may have a material impact on the Group's future results and net assets.

Other

All books of business have been closed to new exposures for a number of years now and the result is that they do not suffer from attritional claims activity. However, the age of these claims means that more will be subject to disputes on the extent of coverage and size of loss and allocation of loss amounts. Market rulings and legal judgements can have a material effect on groups of these claims making the final outcome uncertain.

Basis for establishing provision for claims outstanding

Loss reserves for insurance and reinsurance business are established based on claims data reported to the Company by ceding companies supplemented with relevant industry benchmark loss development patterns used to project the ultimate incurred loss. Ultimate incurred loss indications are calculated by the Company's actuaries using several standard actuarial methodologies.

The Company's actuaries utilise several assumptions in applying each methodology, including loss development factors and actual reported claim frequency and severity. These reviews and documentation are completed in accordance with professional actuarial standards appropriate to the jurisdictions where the business is written. The selected assumptions reflect the actuaries' judgement based on historical data and experience combined with information concerning economic, judicial, regulatory and other influences on ultimate claim settlements. Best estimates are derived for each Company and underwriting year.

4. ANALYSIS OF RISK (continued)

Insurance risk (continued)

Basis for establishing provision for claims outstanding (continued)

Based on the actuarial indications, the Company selects and records a single point estimate, which becomes management's best estimate which the Company considers to be one that has an equal likelihood of developing a redundancy or deficiency as the loss experience matures. On an annual basis the Company analyses and records its loss reserve estimates across detailed lines of business.

During the loss settlement period, additional facts regarding claims are reported. As this occurs it may be necessary to increase or decrease the unpaid losses and loss expense reserves. The actual final liability may be significantly different to prior estimates. The Company reviews additional reported claim information on a monthly basis. Actual claim experience is compared to that expected from the most recent actuarial reserve review to highlight significant variances. A complete actuarial analysis by detailed line of business including selection of single point estimates is completed annually and is reviewed by the Company's management.

The Unallocated Loss Adjustment Expense provision ("ULAE") is based on assessment of the resources required by year to deliver the strategy for each company taking into account staff by department, accommodation and office services overheads, legal and professional charges, including assistance with and costs of planned schemes of arrangement, IT overheads including investment in system developments and human resources overheads. These estimates are reviewed in the context of previous years' actual expenses on an annual basis approved by the board.

Financial Risk

Introduction

The Group is subject to several types of financial risk. The most significant of these is the risk that at any given date, the proceeds from realising the financial assets of the Group may be insufficient to meet the financial obligations arising from its insurance contracts. The Group is also exposed to risk as a result of changes in foreign currency.

The Group is also exposed to interest rate risk on its insurance reserves and floating rate borrowings. Where appropriate, reserves are discounted as permitted by IFRS 4. Discount rates are based on the USD risk-free rate. A reduction of 1 per cent. would reduce the net discount in the balance sheet by approximately $0.3 million as at 31 December 2006 (2005: $2.1m & 2004: $1.8m).

Market Risk (including interest rate risk)

The Group's investment strategy is based on a high quality diversified portfolio of liquid investment grade fixed income securities as a method of preserving equity capital and prompt claim payment capability.

The Group's invested assets are subject to interest rate risk. The Group's interest rate risk is concentrated in the US and Europe and is sensitive to many factors, including governmental monetary polices and domestic and international economic and political conditions. Based on invested assets at external managers of $78.8m as at 31 December 2006, a 1 per cent. increase/decrease in interest rates across the yield curve would result in an approximate $0.4m unrealised loss/profit respectively.

The Group uses external investment managers to invest its assets. The Board establishes investment policies and creates guidelines for external investment managers. These guidelines specify criteria on the overall credit quality and liquidity characteristics of the portfolio and include limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities.

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Market Risk (including interest rate risk) (continued)

Of total invested assets, $78.8 million was managed by third-party fund managers with the asset mix shown below at 31 December 2006.

Asset class	*2006*	*2005*	*2004*
Governments	46%	62%	35%
Corporates	34%	26%	57%
Asset backed securities	5%	3%	6%
Cash and other	15%	9%	2%
	100%	100%	100%

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

Maturity date or contractual re-pricing date

$ million – 2006	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities fixed interest rate	79	52	9	3	10	5

Interest rates range

	Less than one year	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Debt securities fixed interest rate	0.0%–7.800%	3.500%–6.700%	4.625%–6.500%	3.750%–5.750%	5.000%–5.750%

$ million – 2005	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities fixed interest rate	86	57	6	8	9	6

Interest rates range

	Less than one year	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Debt securities fixed interest rate	0.0%–6.750%	5.125%–7.875%	4.625%–6.700%	3.90%–5.750%	3.500%–5.000%

Maturity date or contractual re-pricing date

$ million – 2004	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities fixed interest rate	56	21	3	6	13	13

Interest rates range

	Less than one year	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Debt securities fixed interest rate	0.000%–7.500%	5.750%–6.750%	5.125%–7.875%	3.125%–6.500%	3.750%–6.625%

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk

When the Group was underwriting, it purchased reinsurance to manage its catastrophe exposure and mitigate insurance risk. However, the ceding of insurance risk exposes the Group to credit risk from its reinsurers and retrocessionaires.

In designing the reinsurance programme the Group took account of the risk assessment, the financial strength of reinsurance counterparties, the benefits to shareholders of capital efficiency and reduced volatility, and the cost of reinsurance protection.

When underwriting, the Group purchased retrocessional reinsurance to improve the extent to which it could manage risk exposures, protect against catastrophic losses, access additional underwriting capacity and stabilise financial ratios.

The Group continues to monitor its exposure to reinsurers and retrocessionaires closely over time. The following table shows the reinsurance assets carried on the balance sheet net of collateral, split by the credit rating of the counter party group to which each reinsurer or retrocessionaire belongs and excludes the aggregate stop loss policies purchased by the Group:

Credit risk includes the risk of reinsurer default. The level of uncertainty inherent in the recoverability of reinsurance recoveries is significant due to the substantial period of time that the Group has been in run-off. Included in the Group's balance sheet are reinsurance recoveries. The Directors have assessed exposure to bad debts arising from reinsurance dispute or failure and, following careful review, have made a provision against bad debts based on current information available.

Reinsurance recoveries are calculated quarterly by reference to the gross claims including IBNR utilising the Group's recovery programmes for facultative, proportional and excess of loss reinsurance. There is a quarterly review process to ensure the recoveries calculated are accurate, if any amendments are required these are made as manual adjustments.

For bad debt provisioning purposes, all insolvent security has a 100 per cent. provision. Well rated reinsurers are not provided against. Where the company has the benefit of an inter group treaty and that provides for a recovery of bad debt then provisions are only made against paid recoverable balances. In addition to a security provision there is a provision for losses classified as contentious and a provision for time barred losses which is calculated on a case by case basis. Any inwards set offs are netted off fully.

The following table summarises the average credit ratings of reinsurance counterparties:

Credit Rating of reinsurance counter party		*Reinsurance Assets*	
	2006	*2005*	*2004*
A	5%	65%	66%
Unrated	95%	35%	34%
Total	100%	100%	100%

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk (continued)

The largest aggregate stop loss policies purchased by the Group is as follows:

31 December 2006 in $m	*Amount Recoverable*	*Discount*	*Net Amount*	*Collateral*
Continental Reinsurance Corporation International Ltd	25.1	(9.4)	15.7	–

31 December 2005 in $m	*Amount Recoverable*	*Discount*	*Net Amount*	*Collateral*
Continental Reinsurance Corporation International Ltd	26.8	(10.0)	16.8	–

31 December 2004 in $m	*Amount Recoverable*	*Discount*	*Net Amount*	*Collateral*
Continental Reinsurance Corporation International Ltd	5.9	(2.2)	3.7	–

Additionally, the Group is subject to credit risk in respect of third party entities in which the Group holds debt securities issued by those companies. As a consequence of the established investment policies and in order to mitigate investment risk, the average credit quality of the portfolio was A in 2006, 2005 and 2004. Other than with respect to US, Canadian and European Union government and agency securities, the Group's investment guidelines limit its aggregate exposure to any single issuer to 20 per cent. of its portfolio. All securities must be rated A or better at the time of purchase. There were no investment write-offs in 2004, 2005 or 2006.

The following table illustrates the split of total debt securities by rating of investee.

Credit Rating of investee	*2006*	*2005*	*2004*
AAA/US Government or equivalent	55%	65%	44%
AA	6%	2%	9%
A	32%	32%	47%
BBB+	1%	–	0%
NR	6%	1%	0%
Total	100%	100%	100%

At 31 December 2006, the Group's largest aggregate exposure to any single issuer other than with respect to the United States and agency securities was $3.4 million in respect of General Elec Corp and various subsidiary companies. (31 December 2005: $5.2 million) (31 December 2004: $1.5 million).

Depending upon the duration of the liabilities supported by a particular portfolio, the Group's portfolio investment duration targets may range from 1 to 6 years. The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. The Group seeks to utilise investment benchmarks that reflect this duration target. The Board periodically revises the Group's investment benchmarks based on business and economic factors including the average duration of the Group's potential liabilities. At 31 December 2006, the Group's investment portfolio had an effective duration of 2 years (31 December 2005: 2.5 years). The Group has shortened duration targets on its investment portfolios to ensure that sufficient liquidity will be available to execute its commutation strategy.

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk (continued)

Asset and liability mismatch risk

In order to ensure that adequate liquid resources are available to fund insurance liability cash outflows when they fall due, the Group's practice is to invest in assets matching the currency and duration of the expected related liabilities. The tables below show the matching of assets and liabilities for the years under review:

Consolidated balance sheet		*Maturity date or contractual re-pricing date*				
$ million – 2006	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities fixed interest rate	79	52	9	3	10	5
Cash	32	32				
Reinsurers' share of technical provisions	94	13	11	10	15	45
Other assets	43	43				
Total assets	248	140	20	13	25	50
Technical provisions	(100)	(14)	(12)	(10)	(17)	(47)
Other liabilities	(32)	(32)				
Equity	(116)					(116)
Total liabilities and equity	(248)	(46)	(12)	(10)	(17)	(163)
Mismatch - surplus/deficit		95	8	3	8	(114)
Cumulative mismatch		95	103	106	114	0

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Credit risk (continued)

Asset and liability mismatch risk (continued)

$ million – 2005	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities fixed interest rate	86	61	5	7	8	5
Cash	27	27				
Reinsurers' share of technical provisions	71	10	8	7	12	34
Other assets	54	28	26			
Total assets	238	126	39	14	20	39
Technical provisions	(108)	(15)	(13)	(11)	(19)	(50)
Other liabilities	(51)	(51)				
Equity	(79)					(79)
Total liabilities and equity	(238)	(66)	(13)	(11)	(19)	(129)
Mismatch - surplus/deficit		60	26	3	1	(89)
Cumulative mismatch		60	86	88	89	0

Consolidated balance sheet		*Maturity date or contractual re-pricing date*				
$ million – 2004	*Total*	*Less than one year*	*After one year but less than two years*	*After two years but less than three years*	*After three years but less than five years*	*More than five years*
Exposed to fair value risk						
Debt securities fixed interest rate	56	18	3	7	14	14
Cash	27	27				
Reinsurers' share of technical provisions	50	7	6	5	9	23
Other assets	82	82				
Total assets	215	134	9	12	23	37
Technical provisions	(87)	(12)	(10)	(9)	(15)	(41)
Other liabilities	(14)	(14)				
Equity	(114)					(114)
Total liabilities and equity	(215)	(26)	(10)	(9)	(15)	(155)
Mismatch - surplus/deficit		108	(1)	3	8	(118)
Cumulative mismatch		108	107	109	118	0

4. ANALYSIS OF RISK (continued)

Financial Risk (continued)

Currency risk

The Group reports its results in US Dollars and accordingly, to the extent that shareholders' funds are invested in assets denominated in currencies other than US Dollars, exchange gains or losses may arise on translation.

The Group controls its currency risk by investing in assets that match the currency in which it expects related insurance liabilities to be paid and by investing the majority of assets backing shareholder funds in US Dollars.

US Dollar and other currencies are grouped together for currency management purposes due to the high level of correlation they have historically experienced relative to each other in comparison to their much lower correlation with the US Dollar. A positive percentage arises when assets exceed liabilities denominated in that currency while a negative percentage arises when liabilities exceed assets.

Liquidity Risk

Liquidity risk is the potential that obligations cannot be met as they become due as a consequence of not being able to readily realise assets to meet these obligations.

The Group maintains sufficient liquidity to ensure it can meet its claim payment and commutation liabilities in accordance with its forecast estimates and payment profile.

5. INVESTMENT INCOME

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Financial assets - fair value through income statement			
Interest income from debt & equity securities	0.8	1.2	1.3
Cash and cash equivalents interest income	2.6	4.6	1.7
	3.4	5.8	3.0

All investment income was realised.

6. OTHER INCOME

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Surplus on acquisition of assets and liabilities – see note 19	–	5.8	–
Foreign exchange gains	3.7	2.5	0.9
	3.7	8.3	0.9

7. TAX

UK corporation tax is calculated at 30 per cent. (2005 & 2004: 30 per cent.) of the estimated assessable UK profit for the year. The tax charge for the periods presented varied from the stated rate of UK corporation tax as explained below:

	2006 *$m*	*2005* *$m*	*2004* *$m*
Current Tax - continuing operations	–	–	(0.4)
Deferred Tax	–	–	–
Profit for the year from continuing operations	22.4	7.2	(7.5)
Profit for the year from discontinued operations			1.2
	22.4	7.2	(6.3)
Standard Corporation Tax at 30%	6.7	2.2	(1.9)
Factors affecting tax charge:			
Section 107 adjustment in relation to (over)/under reserving	(0.2)	0.1	0.4
Section 107(4) reversal of previous year's disclaim of technical reserves	15.6	14.3	16.0
Adjustment to Section 107(4) previous year's disclaim of technical reserves	(10.3)	(15.6)	(14.3)
Utilisation of tax losses	0.5	0.6	–
Dividends receivable disallowed			5.7
Temporary timing differences	(8.0)	(1.6)	3.6
Consolidation adjustment to eliminate discounting of CRC reserves			(9.9)
Utilisation of group relief	(0.5)		
Losses carried forward	(3.8)		
	0.0	(0.0)	(0.4)
Details of the full potential assets for deferred taxation are given below:			
Unutilised capital losses	2.3	0.4	0.4
Unutilised trading losses	–	25.0	22.5
	2.3	25.4	22.9

Deferred income tax is provided in full, using the liability method, on all temporary differences, which are based on the difference between the financial statement carrying values and the tax bases of assets and liabilities using enacted income tax rates and laws. Deferred income tax assets are recognised to the extent that it is regarded as probable that they will be utilised against sufficient future taxable income. Deferred income tax assets and liabilities are not discounted.

8. DISCONTINUED OPERATIONS

Discontinued operations related to the members voluntary liquidation of the Company's subsidiary Continental Insurance Holdings (Europe) Limited in early 2007.

Income Statement	*2006* *$m*	*2005* *$m*	*2004* *$m*
Investment income	1.3	1.0	3.1
Other income	–	1.9	0.5
Total income	1.3	2.9	3.6
Results of operating activities	1.3	2.9	3.6
Administration expenses	–	0.3	0.1
Foreign exchange losses	–	–	(2.4)
Profit before tax	1.3	3.2	1.3
Tax charge	0.2	(1.0)	–
Profit/(Loss) for the year	1.5	2.2	1.3

Balance Sheet	*2006* *$m*	*2005* *$m*	*2004* *$m*
Assets			
Investments: Debt & equity securities–	–	–	33.2
Loans and receivables including insurance receivables	23.5	18.3	19.7
Cash and cash equivalents	7.8	6.6	15.4
Total assets	31.3	24.9	68.3
Equity			
Share capital	12.2	12.2	45.2
Share premium account	14.7	14.7	14.7
Retained loss	4.4	(3.2)	1.4
Total equity	31.3	23.7	61.3
Liabilities			
Other liabilities and charges	–	1.2	7.0
Total liabilities	–	1.2	7.0
Total liabilities & equity	31.3	24.9	68.3

8. DISCONTINUED OPERATIONS (continued)

Cash Flow	*2006* *$m*	*2005* *$m*	*2004* *$m*
Cash (used in)/generated from operating activities	(0.3)	(8.8)	23.2
Income tax paid	0.2	(1.0)	0.0
Net cash (used in)/generated from operating activities	(0.1)	(9.8)	23.2
Cash flows generated from/(used in) investing activities			
Proceeds from promissory note	–	–	–
Proceeds from sale of fixed assets	–	–	2.0
Cash receipts from interest and dividends	1.3	1.0	3.3
Net cash generated from/(used in) investing activities	1.3	1.0	5.3
Cash flow (used in)/generated from financing activities			
Repurchase of ordinary shares	–	–	(12.1)
Proceeds from issuance of ordinary shares	–	–	(5.5)
Dividends paid to shareholders	–	–	(18.7)
Net cash used in financing activities	0.0	0.0	(36.3)
Net increase/(decrease) in cash and cash equivalents	1.2	(8.8)	(7.8)
Cash and cash equivalents at beginning of year	6.6	15.4	23.2
Cash and cash equivalents at end of year	7.8	6.6	15.4

The discontinued operation has been accounted for as an available for sale investment since 2005 as the Company lost control when the discontinued operation was placed into members voluntary liquidation on 22 June 2005.

As the discontinued operation was accounted for as an available for sale investment, only the changes in the equity of the discontinued operation have been recognised in the Statement of Recognised Income and Expense and was $7.6m as at 31 December 2006 (2005: negative $37.6m). Similarly, cash flows have not been included in the consolidated cash flow statement for 2006 and 2005.

9. PROFIT FOR THE YEAR

Profit/(loss) from operations has been arrived after charging:

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Staff costs (See note 18)	3.2	–	–
Depreciation	–	–	0.1
Operating lease rentals	–	–	3.3

Amounts payable to Deloitte & Touche LLP, and their associates, by the Company in respect of audit and related services were as follows:

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Audit Services – Services as auditors	0.4	0.3	0.3

Directors' Emoluments

2006	*Fees as directors*	*Other Emoluments*	*Company pension contributions*	*Compensation for loss of office*	*Total*	*Highest paid directors' emoluments*	*Highest paid directors' pension*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Services as directors of the company	0.5	–	0.1	0.1	0.7	0.3	–

2005	*Fees as directors*	*Other Emoluments*	*Company pension contributions*	*Compensation for loss of office*	*Total*	*Highest paid directors' emoluments*	*Highest paid directors' pension*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Services as directors of the company	0.3	–	–	–	0.3	0.1	–

2004	*Fees as directors*	*Other Emoluments*	*Company pension contributions*	*Compensation for loss of office*	*Total*	*Highest paid directors' emoluments*	*Highest paid directors' pension*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Services as directors of the company	0.2	–	–	–	0.2	0.1	–

Prior to 31 March 2006 no directors who served during prior financial years were remunerated by the company. On 1 April 2006 S L B Byrne, C L E Allen and J R Hughes' employment contracts were transferred and remunerated by the company. The amounts disclosed for 2005 and 2004 are those relating to their services as directors for the company based on an estimated time allocation basis. Emoluments in relation to services performed by the directors for other CNA group companies are not disclosed in the company's financial statements.

10. CASH & CASH EQUIVALENTS

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Cash at bank and in hand	31.7	26.8	26.6

11. INVESTMENTS: DEBT & EQUITY SECURITIES

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Fair value through income statement			
Debt Securities	78.8	86.4	56.4
Equity Securities	–	0.7	0.8
Other unsecured loans	–	–	40.1
Deposits with ceding undertakings	3.8	3.8	4.3
	82.6	90.9	101.6
Available for sale: Investment in discontinued subsidiary	31.3	23.7	–
	113.9	114.6	101.6

The investments included above represent investments in listed equity securities and listed debt securities. The fair values of these investments are based on bid prices.

The average duration of the portfolio was 1.5 years in 2006 (1.6 years in 2005, 3.8 years in 2004).

The following table shows the movement in the value of investment in the Company's discontinued subsidiary:

	2006	*2005*
	$m	*$m*
As at 1 January	23.7	–
Additions	–	54.6
Profit of discontinued subsidiary	1.5	2.2
Distributions		(33.1)
Foreign Exchange	6.1	
As at 31 December	31.3	23.7

12. LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES

Current Assets	*2006*	*2005*	*2004*
	$m	*$m*	*$m*
Debtors arising out of reinsurance operations	7.4	21.9	9.1
Other debtors	0.8	3.8	26.2
Prepayments and accrued income	0.6	0.5	0.8
Total loans and receivables including insurance receivables	8.8	26.2	36.1

The group has not recognised any deferred tax assets or liabilities.

13. TECHNICAL PROVISIONS

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Gross claims outstanding			
Provision for claims outstanding, reported and not reported	130.1	135.0	110.6
Discount	(43.0)	(44.3)	(36.1)
	87.1	90.7	74.5
Claims handling provisions	13.3	17.2	12.6
Total gross claims outstanding	100.4	107.9	87.1
Total insurance contracts	100.4	107.9	87.1
Total reinsurance			
Provision for claims outstanding, reported and not reported	105.7	112.6	80.2
Discount	(11.8)	(42.0)	(29.9)
Total reinsurers' share of claims outstanding	93.9	70.6	50.3
Total reinsurance contracts	93.9	70.6	50.3
Undiscounted claims outstanding, net of reinsurance	37.7	39.6	43.0
Discount	(31.2)	(2.3)	(6.2)
Claims outstanding net of reinsurance	6.5	37.3	36.8

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.

Prior year reserve development

The Group's expected loss development is determined by the Group's internal actuaries based on historical claims analysis and projected trends. Actual reported losses may vary from expected loss development. Generally, as an underwriting year matures, the level of newly reported claims decreases.

During the twelve months ended 31 December 2006 the Group experienced an improvement in the prior year net reserves before discount and net of commutations of $1.9 million (2005: Adverse reserves development before discount of $9.6 million & 2004: adverse development of $7.7m).

After discount the favourable reserves development in 2006 was $36.0 million, net of reinsurance commutations (2005: adverse reserves development of $5.2 million, net of reinsurance, commutations and discount).

The following table presents the development of the Group's claims outstanding and claims handling expense reserves net of reinsurance and before discount. An increase is an adverse run-off deviation and a decrease is a positive run-off deviation to the provision for claims outstanding, net of reinsurance held at the previous balance sheet date.

13. TECHNICAL PROVISIONS (continued)

Prior year reserve development (continued)

Reserve Movements	*2002*	*2003*	*2004*	*2005*	*2006*
	$m	*$m*	*$m*	*$m*	*$m*
Net discounted reserves at beginning of year	54.5	42.4	38.8	36.8	37.3
Impact of changes in foreign exchange rates	(0.0)	5.0	0.6	(3.8)	4.1
Net claims paid	(9.9)	(6.4)	(11.8)	(4.5)	(11.7)
Increase/(Decrease) in ultimates for net claims before discounting	(7.4)	(8.1)	8.6	8.4	(1.9)
Change in the impact of discounting	5.2	5.9	0.5	0.4	(21.4)
Net discounted reserves at end of year	42.4	38.8	36.8	37.3	6.5

14. SHARE CAPITAL

	2006		*2005*		*2004*	
	Number '000	*$m*	*Number '000*	*$m*	*Number '000*	*$m*
Authorised:						
Ordinary shares of £1 each	60,000	117.5	60,000	117.5	60,000	293.9
Total authorised	60,000	117.5	60,000	117.5	60,000	293.9
Allotted and called up:						
Called up, allotted and fully paid ordinary shares of £1 each	38,987	72.4	53,883	98.2	52,797	94.2
£0.50 called up and paid ordinary shares of £1 each	1,914	1.8	1,914	1.8	3,000	2.8
Total allotted, called up and fully paid	40,901	74.2	55,797	100.0	55,797	97.0

On the 23 January 2006 the company made a payment out of capital to purchase 14,895,549 ordinary shares of £1each for a consideration of $25.8m. The excess of the consideration over the nominal value of the shares has been transferred from the capital contribution account.

15. RESERVES

	Capital contribution $m	*Share premium $m*	*Retained loss $m*	*Total $m*
As at 1 January 2004	48.0	5.0	(50.9)	2.1
Profit for the period			(7.5)	(7.5)
Currency translation differences			21.9	21.9
As at 31 December 2004	48.0	5.0	(36.5)	16.5
As at 1 January 2005	48.0	5.0	(36.5)	16.5
Profit for the period			7.2	7.2
Currency translation differences			(12.8)	(12.8)
Change in value of discontinued subsidiary				–
As at 31 December 2005	48.0	5.0	(42.1)	10.9
As at 1 January 2006	48.0	5.0	(42.1)	10.9
Profit for the period			22.4	22.4
Set-off of premium on share repurchase	(0.1)			
Currency translation differences			1.5	1.5
Change in value of discontinued subsidiary			7.6	7.6
As at 31 December 2006	47.9	5.0	(10.6)	42.4

16. OTHER LIABILITIES

	2006 $m	*2005 $m*	*2004 $m*
Other creditors	23.5	3.6	7.8

All other liabilities and charges were current and not long-term as at the end of 2006, 2005 and 2004.

17. CASH (USED IN)/GENERATED FROM OPERATIONS

	2006 $m	*2005 $m*	*2004 $m*
Profit/(Loss) for the year before tax	22.4	7.2	(7.5)
Adjustments for:			
Depreciation	–	–	0.1
Surplus on business acquisition	–	(5.8)	–
Unrealised losses on realisation of investments	3.0	0.3	2.4
Profit on foreign exchange	(3.7)	(2.5)	(0.9)
Change in operating assets and liabilities	21.7	(0.8)	(5.9)
Net decrease/(increase) in loans and receivables	17.4	9.9	(25.1)
Net (decrease)/increase in insurance liabilities	(49.5)	(6.0)	20.7
Net (decrease)/increase in other liabilities	19.9	(4.3)	6.1
Cash (used in)/generated from operations	9.5	(1.2)	(4.2)

18. STAFF COSTS

The average monthly number of employees (including Executive Directors) were:

	2006	*2005*	*2004*
Support staff	16	–	2
Management	5		
	21	–	2

Their aggregate remuneration comprised:	*2006* *$m*	*2005* *$m*	*2004* *$m*
Wages and salaries	2.5	–	–
Social security costs	0.2	–	–
Other pension costs (see note 20)	0.5	–	–
Total	3.2	–	–

All staff were employed and remunerated by CNA Europe Holdings Limited from 1 December 2004 until 31 March 2006 when all contracts were transferred to the Company.

19. PART V11 TRANSFERS

On 21 December 2004, 100 per cent. of the assets and liabilities of Continental Reinsurance Corporation (UK) Limited were transferred to the Company through through a business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The assets and liabilities transferred were as follows:

	$m
Assets acquired	75.6
Liabilities acquired	(48.7)
	26.9
Consideration settled in cash	(26.9)
Surplus on transfer	–

On 30 December 2005, 100 per cent. of the assets and liabilities of Continental Insurance Company (UK) Limited were transferred to the Company through a business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The assets and liabilities transferred were as follows:

	$m
Assets acquired	90.0
Liabilities acquired	(84.2)
	5.8
Consideration settled in cash	–
Surplus on transfer	5.8

20. RETIREMENT BENEFIT SCHEME

The Group participates in the pension plan of the Company's former parent, CNA which is a defined benefit multi-employer scheme, the assets and liabilities of which are held independently from the Group. The Group is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme. Following the sale of the Company in early 2007 as described in note 25, no ongoing funding obligation related to the pension fund remains as all members are now deemed to be deferred members.

The total cost of retirement benefits for the Group in the year ended 31 December 2006 was $0.5 million (31 December 2005: $0 million; 31 December 2004: $0 million).

21. OPERATING LEASES

The Group was not committed to paying total future minimum lease payments under non-cancellable operating leases at the end of 2006, 2005 or 2004.

The gross amount incurred under operating leases during the period ended 31 December 2006 was $0 million (31 December 2005: $0 million) (31 December 2004: $3.3 Million).

22. CONTINGENT LIABILITIES

The Company is routinely involved in litigation or potential litigation related to primarily the settlement of insurance claims liabilities. However, none of such actual or proposed litigation that had not been provided for met the definition of a contingent liability. Consequently, the group had no insurance related, or other, contingent liabilities as at 31/12/2006 (2005 & 2004: no contingent liabilities).

23. GROUP SUBSIDIARIES

Name of subsidiary	*Place of incorporation (or registration) and operation*	*Portion of ownership interest*	*Portion of voting power held*
2006			
The Continental Insurance Holdings (Europe) Limited	Great Britain	100%	100%
2005			
The Continental Insurance Holdings (Europe) Limited	Great Britain	100%	100%
2004			
The Continental Insurance Holdings (Europe) Limited	Great Britain	100%	100%

The Continental Insurance Holdings (Europe) Limited was placed into members voluntary liquidation in 2005. Since that time the Company has accounted for it as an available-for-sale investment, recorded at net asset value. Changes in net asset value were recognised through the Statement of Recognised Income and Expense.

24. RELATED PARTY TRANSACTIONS

Throughout the year there were various recharges to/ from CNA companies outside the group as disclosed below:

	Recharges from related parties			*Recharges to related parties*		
	2006	*2005*	*2004*	*2006*	*2005*	*2004*
	\$m	*\$m*	*\$m*	*\$m*	*\$m*	*\$m*
CNA Insurance Company Limited	1.1					
Global Resource Managers Limited		4.2	5.7	0.2		
	1.1	4.2	5.7	0.2	–	–

Institute of London Underwriters (ILU) guarantee

In respect of the Group's marine run off business, the Group has the benefit of a guarantee dated 4 May 1989 from The Continental Corporation (TCC) that is known as the Institute of London Underwriters (ILU) guarantee. In effect this protects the policyholders of policies underwritten at the ILU that should the Group become insolvent then TCC would become liable to pay those policyholders' claims. The gross marine reserves for which this guarantee applies at 31 December 2006 was $16.1M (2005, $29.9M 2004, $59.1M)

24. RELATED PARTY TRANSACTIONS (continued)

Surrender of Tax Losses

For the 2004 tax return the Group surrendered $39,350,649 of tax losses to subsidiaries of CNA Financial corporation for nil consideration. (2005 Nil, 2006 Nil).

Reinsurance contracts with Group companies

The Group had significant reinsurance from other group companies as disclosed below. In 2006 this reinsurance cover amounted to 53 per cent. of the Group's total insurance liabilities (2005, 38%, 2004, 20.2%). On 4 May 2007 the Company was acquired by KX Reinsurance Holdings Limited. At that time reinsurances with group companies was commuted for a consideration of $71m.

	2006	*2005*	*2004*
	$m	*$m*	*$m*
Gross Paid Losses			
CNA Ins Co Ltd (CICL)	2.1	–	–
RI Paid Losses			
Niagara	0.6	0.2	0.2
CRCI	3.2	3.4	13.4
	3.8	3.7	13.6
Gross Case Reserves			
CICL	1.1	2.3	2.2
Gross IBNR Reserves			
CICL	0.3	0.4	0.7
Total Gross Reserves	1.4	2.7	2.9
RI Case Reserves			
Niagara	0.5	0.9	0.4
CRCI	34.1	24.7	11.8
	35.0	25.6	12.2
RI IBNR Reserves			
Niagara	0.3	1.2	0.5
CRCI	35.7	34.4	18.8
	36.0	35.6	19.3
Total RI Reserves	70.6	61.2	31.5
CICL	(0.2)	(1.6)	–
CNA(UK) Holdings Ltd	–	(0.4)	(0.2)
Global Reinsurance Managers Ltd	0.1	0.5	(0.8)
Continental Insurance Corporation	–	(1.0)	–
CRCI	(0.2)	5.5	0.9
Niagara	–	0.5	0.3
Outstanding Balances	–	3.5	0.2

24. RELATED PARTY TRANSACTIONS (continued)

Key Management Personnel

The Group considers its key management personnel to include its Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations.

Remuneration of key management personnel

The remuneration of the Directors and those members of management reporting directly to its Board that have executive management responsibility for Group-wide operations, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. For year ended 31 December 2006 this included 5 individuals (2005 & 2004: 5 individuals).

Prior to 31 March 2006 no directors who served during prior financial years were remunerated by the company. On 1 April 2006 S L B Byrne, C L E Allen and J R Hughes' employment contracts were transferred and remunerated by the company. The amounts disclosed for 2005 and 2004 are those relating to their services as directors for the company based on an estimated time allocation basis.

Management Remuneration	*2006*	*2005*	*2005*
	$m	*$m*	*$m*
Short-term employee benefits	0.53	0.26	0.23
Post-employment benefits	0.007	0.03	0.03
Other long-term benefits			
Termination Benefits	0.12		
Share-based payment			
	0.72	0.29	0.26

Share and loan transactions with members of key management

As at 31 December 2006, the Group had one loan to key management, which comprised a travel loan to Mr. S L B Byrne. The amount outstanding at 31/12/06 was $10,909 (2005: $6,689 & 2004: $6,563).

No share transactions with key management took place in 2006, 2005 or 2004.

Immediate and ultimate parent company

The immediate parent company was The Continental Corporation and the ultimate parent company Loews Corporation, both incorporated in the United States of America. The consolidated financial statements of these companies can be obtained from CT Corporation System, 1633 Broadway, New York, NY, 10019, USA.

In May 2007 the Company was acquired by KX Reinsurance Holdings Limited, registered in England and Wales, which became the Company's immediate parent at that date. The Ultimate parent company changed to Financière Pinault S.C.A., an entity registered in France. 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.

25. POST BALANCE SHEET EVENTS

In May 2007, the Company was acquired by KX Reinsurance Holdings Limited for a consideration of approximately $65m.

At the time when the Company was acquired, it commuted all its remaining reinsurances with companies of the CNA Financial Corporation, for which the Company received cash consideration of $71m.

26. TRANSITION TO IFRS

As part of the transition from UK GAAP to IFRS, the following changes have been effected:

- The accounts have been prepared as consolidated accounts, incorporating the results and net assets of the Company's subsidiaries
- The Company has chosen the exemption under IFRS 1 not to reconsider business combinations prior to the date of transition
- The Company has chosen to retain the value of property, plant and equipment as under prior GAAP and not to revalue them
- KX Re has discounted its reserves

PART V

PRO-FORMA STATEMENT OF NET ASSETS

The unaudited pro-forma statement of net assets set out below is provided to show the effect on the net assets of the Group of the Placing, Subscription and the acquisition of KX Re as if these events had taken place on 31 December 2006. This unaudited pro-forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not represent the actual financial position of the Group.

The unaudited pro-forma statement of net assets is compiled on the basis set out below:

ASSETS

All amounts in $m	*KX Group Consolidated*	*Acquisition Adjustments*	*KX Group Consolidated Post-Acquisition*	*Tawa Group Consolidated*	*KX Consolidation Adjustments*	*Enlarged Group*	*IPO Transaction*	*Group Post-IPO*
Investments and Fixed Assets	0.0	0.0	0.0	13.4	0.0	13.4	0.0	13.4
Goodwill	0.0	0.0	0.0	18.2	0.0	18.2	0.0	18.2
Long-term and Deferred Assets	0.0	0.0	0.0	106.0	0.0	106.0	0.0	106.0
Current Assets	248.3	(28.1)	220.2	9.4	5.5	235.1	14.7	249.8
Debtors: Direct	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors: Reinsurance	7.4	0.3	7.7	0.0	0.0	7.7	0.0	7.7
Financial Investments	82.7	0.0	82.7	0.0	0.0	82.7	0.0	82.7
Outwards Reinsurance	93.9	(73.9)	20.0	0.0	0.0	20.0	0.0	20.0
Other Debtors	32.0	(31.2)	0.8	2.9	0.0	3.7	0.0	3.7
Cash	31.7	76.7	108.4	5.7	5.5	119.6	14.7	134.3
Prepayments etc.	0.6	0.0	0.6	0.8	0.0	1.4	0.0	1.4
TOTAL ASSETS	248.3	(28.1)	220.2	147.0	5.5	372.7	14.7	387.4

LIABILITIES

All amounts in $m	*KX Group Consolidated*	*Acquisition Adjustments*	*KX Group Consolidated Post-Acquisition*	*Tawa Group Consolidated*	*KX Consolidation Adjustments*	*Enlarged Group*	*IPO Transaction*	*Group Post-IPO*
Capital & Reserves	116.5	1.6	118.1	142.5	(76.2)	184.4	49.7	234.1
Share Capital	74.2	0.1	74.3	57.2	(74.3)	57.2	2.9	60.1
Share Premium	5.0	0.0	5.0	0.0	(5.0)	0.0	52.9	52.9
Capital Contribution	47.9	0.0	47.9	0.0	(47.9)	0.0	0.0	0.0
Negative Goodwill	0.0	0.0	0.0	0.0	44.9	44.9	0.0	44.9
Profit & Loss	(10.6)	1.5	(9.1)	85.3	6.1	82.3	(6.1)	76.2
Current Liabilities	131.8	(29.7)	102.1	4.5	46.7	153.3	(35.0)	118.3
Creditors: Direct	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Creditors: Reinsurance	7.9	0.1	7.9	0.0	0.0	7.9	0.0	7.9
Claims Provision	100.4	(6.2)	94.2	0.0	8.7	102.9	0.0	102.9
Financière Pinault Bridge Loan	0.0	0.0	0.0	0.0	35.0	35.0	(35.0)	0.0
Other Creditors	23.5	(23.6)	0.0	4.5	3.0	7.5	0.0	7.5
Long-term liabilities	0.0	0.0	0.0	0.0	35.0	35.0	0.0	35.0
TOTAL LIABILITIES	248.3	(28.1)	220.2	147.0	5.5	372.7	14.7	387.4

Notes on the columns

(1) The "KX Group Consolidated" column contains the net assets of the KX Group as at 31 December 2006, extracted without material adjustment from the Historical Financial Information contained within Part IV(B)(ii) of this document.

(2) The "Acquisition Adjustments" column principally contains the effects of:

(2.1) Post balance sheet transactions directly related to the acquisition of KX Group by Tawa Group, including:

(2.1.1) Net liquidation proceeds of a former subsidiary, less payments to the previous owner of the KX Group – $9.4m

(2.1.2) Net cash received on pre-acquisition commutations of certain intra-group reinsurance agreements – $70m

(3) The "Tawa Group Consolidated" column contains the net assets of the Tawa Group consolidated at 31 December 2006 and is extracted without material adjustment from the Historical Financial Information contained in Part IV(A)(ii) of this document.

(4) The "KX Consolidation Adjustments" column contains the accounting adjustments required to present consolidated accounts for the group as a whole. These include:

(4.1) The elimination of share capital and pre-acquisition reserves of its subsidiary.

(4.2) The debt incurred to finance the acquisition of the KX Group, being $35m from Financière Pinault and $35m from a third party bank. The proceeds of these loans not used to capitalise KX Re Holdings Limited, the company that acquired KX Reinsurance Company Limited, is shown as cash of $5.5m.

(4.3) The negative goodwill of $44.9m, being the difference between the consideration paid and the fair value of the assets and liabilities acquired in the purchase transaction. In determining the fair value of the assets and liabilities acquired, the technical provisions of KX Group have been increased to include an insurance risk premium, which reflects management's consideration of the inherent uncertainty of the technical provisions acquired. The insurance risk premium was $8.7m.

(5) The "IPO Transaction" column contains the following entries:

(5.1) IPO proceeds – $40.8m at IPO plus $15.0m capitalisation of part of the bridge loan to acquire KX Group for a total of $55.8m.

(5.2) The IPO costs – $6.1m.

(5.3) The repayment of the bridging loan related to the acquisition of KX Group – $15.0m capitalised as per 5.1 and $20.0m repaid using cash from the IPO proceeds.

(6) The costs expected to be incurred by the Group as a result of the IPO have been included in the "IPO Transaction" column within the profit and loss account so as to provide transparency of the costs to be incurred. However, within Tawa UK's financial statements, these costs will be set against the share premium account.

(7) The current share capital of Tawa UK has been shown as share capital within the "Tawa Group Consolidated" column. It is expected that this share capital will be restructured before the IPO and may not reside as share capital post the transaction but will be within Capital & Reserves. Additionally, the "IPO Transaction" column includes a notional split between share capital and share premium which will not be finalised until the IPO transaction has been completed.

(8) The US$/£ exchange rate used in the IPO column to illustrate the IPO transaction is US$2.037. The US$/£ rate used to translate balances at 31 December 2006 is $1.9591 which is consistent with the rate of exchange used for this date elsewhere in this document.

PART VI

REGULATION

1. FSA Regulation

1.1 *FSA Regulation - General*

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

The FSA's rules are contained in its Handbook of Rules & Guidance, two parts of which are the "General Prudential Sourcebook" and the "Prudential Sourcebook for Insurers". Insurance business (which includes reinsurance business) is authorised and supervised by the FSA. Insurance business in the UK is divided between two main categories: long-term insurance (which is primarily investment-related) and general insurance. With a few exceptions, it is not possible for a new insurance company to become authorised in both long-term and general insurance business. These two categories are both divided into "classes" (for example: permanent health and pension fund management are two classes of long-term insurance; damage to property and motor vehicle liability are two classes of general insurance). Under the FSMA, effecting or carrying out contracts of insurance, within a class of general or long-term insurance, by way of business in the UK, constitutes a regulated activity requiring individual authorisation. An authorised insurance company must have permission to "effect" and "carry out" each class of insurance business it intends to write. An authorised insurance company in run-off must have permission to "carry out" each class of insurance business it intends to run-off.

Further, under the FSMA, the carrying out of insurance mediation activities by way of business in the United Kingdom requires authorisation. Insurance mediation activities include dealing in insurance contracts as an agent, arranging deals in insurance contracts and assisting in the administration and performance of insurance contracts. Tawa Management is currently seeking authorisation by the FSA as an insurance intermediary (Tawa Management submitted an application to the FSA in March 2007 and is awaiting the FSA's response). If the FSA approves Tawa Management's application for authorisation, then Tawa Management will have permission to carry on the following regulated activities in relation to non-investment insurance contracts: advising on non-investment insurance contracts, arranging (bringing about) deals in investments, assisting in the administration and performance of non-investment insurance contracts, dealing in investments as agent, making arrangements with a view to transactions in investments and agreeing to carry on a regulated activity. Upon its authorisation as an insurance intermediary, Tawa Management may carry on its activities in other Member States of the EEA subject to the provision of a notice prior to commencement of activities to the FSA.

CX Re and KX Re are in run-off and authorised by the FSA to carry out in the UK contracts of insurance in all classes of general insurance business, other than the class of insurance known as "assistance" insurance. As authorised insurers in the UK, CX Re and KX Re will be able to operate throughout the EEA, subject to certain regulatory requirements of the FSA and in some cases, certain local regulatory requirements. An insurance company with FSA authorisation to carry out insurance business in the UK may provide cross-border services in other Member States of the EEA subject to notifying the FSA prior to commencement of the provision of services and to the FSA not having good reason to refuse consent. As an alternative, such an insurance company may establish a branch office within another Member State subject to notifying the FSA prior to the establishment of the branch and the FSA not having good reason to refuse consent; in both cases the FSA will also notify the local regulatory body that may advise additional requirements specific to its jurisdiction applying to the operation of the proposed classes of insurance business.

As FSA-authorised insurers, CX Re and KX Re are subject to close supervision by the FSA. The FSA has prescribed requirements for senior management arrangements, systems and controls of insurance companies under its jurisdiction which must be complied with, and intends to place an increased emphasis on risk identification and management in relation to the financial and operational condition of insurance business in the UK. The Prudential Sourcebook for Insurers and Senior Management Arrangements Systems and Controls also contain requirements in respect of prudential risk management and associated systems and controls. A key element of this is that high level risk policies for each of insurance, credit, market, liquidity, operational and group risk are required to be set by the authorised insurer's governing body. CX Re and KX Re are also required to comply with the FSA's conduct of business rules in connection with the regulation of the administration of general insurance.

1.2 ***Supervision***

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

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

The FSA has the same regulatory tools at its disposal in relation to the supervision of insurance intermediaries, which Tawa Management will be classified as if it obtains authorisation from the FSA. However, where a firm qualifies as a small firm, as it is expected Tawa Management will be, the FSA adopts a lighter touch to the regulation of insurance intermediaries. Nonetheless, all insurance intermediaries are required to submit periodic returns to the FSA, which for Tawa Management would be on a six-monthly basis upon its authorisation by the FSA.

1.3 ***Capital Adequacy Requirements***

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

CX Re and KX Re are each required to maintain capital resources requirement set by the European Insurance Directives. This amount is equal to the greater of (1) the sum of 18 per cent. of the first €53.1 million and 16 per cent. of the excess over €53.1 million of the higher of gross written and gross earned premiums (for these purposes premiums relating to certain categories of liability are uplifted by 50 per cent.) for the financial year (but where a financial year does not have 12 months the gross premium is adjusted to arrive at a figure that is proportionate to a 12-month financial year) less an allowance for anticipated reinsurance recoveries; (2) the sum of 26 per cent. of the average claims incurred (for these purposes claims relating to certain categories of liability business are increased by 50 per cent.) for the first €37.2 million of claims and 23 per cent. of the average claims incurred for claims comprising the excess over €37.2 million, as measured over a 36-month period less an allowance for anticipated reinsurance recoveries; and (3) the general insurance capital requirement for the prior financial year multiplied by the ratio (if it is less than or equal to 100 per cent.) expressed as a percentage, of provisions (net of reinsurance) for claims outstanding at the end of the financial year to provisions (net of reinsurance) for claims outstanding at the beginning of the prior financial year. The capital resources requirement is subject to an absolute minimum of €3.2 million. Each of the Euro amounts referred to in this paragraph are subject to increases in future years.

CX Re and KX Re will each also be required to maintain an equalisation provision, calculated in accordance with the provisions of the Prudential Sourcebook for Insurers. The equalisation provision is deducted from capital when considering whether capital adequacy tests are met.

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

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

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

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

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

1.4 ***Restrictions on dividend payments***

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

As part of the acquisition of KX Re, the Group has provided the FSA with a scheme of operations in respect of KX Re's business, against which the FSA will monitor KX Re's performance. The scheme of operations shows, among other things, a forecast profit and loss account for KX Re for the years 2007 to 2015. KX Re is required to submit regular financial returns to the FSA including a summary profit and loss account and must identify and explain significant differences between actual results and forecasts submitted in the scheme of operations. Further, there is an obligation to notify the FSA of any matter that is likely to happen which represents a significant departure from the scheme of operations. The FSA will also monitor CX Re's performance as part of the FSA's regular supervision of insurance companies and based on the regulatory returns submitted by CX Re.

Both CX Re and KX Re are also under separate obligations to maintain capital resources in excess of their capital resources requirements and to notify the FSA of any proposed significant dividend payment. If the fortunes of CX Re or KX Re were to change such that its ability to maintain capital resources in excess of its capital resources requirement is jeopardised, it would be obliged to notify the FSA. In such circumstances, depending on the financial condition of CX Re or KX Re, the FSA could use its own initiative powers to impose requirements on CX Re or KX Re, including restrictions on future dividend payments.

1.5 ***Reporting Requirements***

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

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

1.6 ***Supervision of Management***

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

1.7 ***Change of Control***

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

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

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

1.8 ***Intervention and Enforcement***

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

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

1.9 ***Fees and Levies***

As authorised insurers in the United Kingdom which are in run-off, CX Re and KX Re are subject to FSA fees but, as they do not write new business, will not be subject to levies known as the Financial Ombudsman Services ("FOS") levies, nor the Financial Services Compensation Scheme ("FSCS") levies.

Upon its authorisation as an insurance intermediary, Tawa Management may be required to pay annual fees and levies to the FSA. The amount of fees and levies are calculated by reference to the income it derives from its insurance mediation activities. It is unlikely that such fees will be material to Tawa.

2. Bermudian Regulation

2.1 *Introduction*

Tawa Bermuda was incorporated in Bermuda on 31 October 2006 as an exempted company under the Bermuda Companies Act with registration number 38995. The objects clause contained in the memorandum of association of Tawa Management (Bermuda) includes amongst other things that the company may carry on the business of insurance and reinsurance managers including run-off management, insurance and reinsurance run-off services, consultants and advisors. Tawa Management (Bermuda) is also registered as an insurance manager under section 10 of the Bermuda Insurance Act.

2.2 *Maintenance of list of insurers for which they act*

A Bermuda insurance manager is required by the Bermuda Insurance Act to maintain an accurate list of all insurers for which he acts as an insurance manager and shall, if required in writing at any time by the BMA so to do, provide the BMA with a copy of that list.

2.3 *Annual fees*

Tawa Bermuda is required to pay annual government fees under the Bermuda Companies Act and an annual insurance management licence fee under the Bermuda Insurance Act.

2.4 *Cancellation of registration*

An insurance manager's registration in Bermuda may be cancelled on certain grounds specified in the Bermuda Insurance Act, including failure of the insurance manager to comply with its obligations under the Bermuda Insurance Act or, if in the opinion of the BMA the insurance manager has not been carrying on business in accordance with sound insurance principles.

2.5 *Intervention by the BMA*

If it appears to the BMA that an insurance manager is in breach of the Bermuda Insurance Act or any condition imposed on its registration or if the insurance manager has not fulfilled the minimum criteria, the BMA may, among other things, direct the insurance manager, 1) not to take on any new business, 2) not to make certain investments, 3) to realise certain investments, 4) not to declare or pay any dividends or distributions or to restrict the making of such payments, 5) to remove a controller or officer, and/or 6) file a petition for the winding up of the insurance manager.

2.6 *Disclosure of information*

The BMA may require certain information and documents from an insurance manager to be produced to them. The BMA may also appoint other regulatory authorities including foreign insurance regulatory authorities to assist with their investigations involving registered persons, subject to restrictions. For example, the BMA must be satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities of the foreign regulatory authority, and the BMA must consider whether it is in the public interest.

Under the Companies Act, the Minister of Finance has been given powers to assist a foreign regulatory authority which has requested assistance in connection with enquires being carried out by it in the performance of its regulatory functions. The Minister's powers include requiring a person to furnish him with information, produce documents to him, attend and answer questions and give assistance in connection with enquiries. The Minister must be satisfied that the assistance requested by the foreign regulatory authority is for the purpose of its regulatory functions and that the request is in relation to information in Bermuda which a person has in his possession or under his control. The

Minister must consider, among other things, whether it is in the public interest to give the information sought.

3. US Regulation

Although Tawa is not a US company, it will be subject to US regulation indirectly if it controls or acquires companies licensed or otherwise authorized in the US. CX Re is not a US company, but it is currently an accredited reinsurer in a majority of states and was previously qualified as an eligible surplus lines insurer. The insurance laws of each state do differ and are subject to varying interpretations by insurance regulators and the courts, and the law of any particular US jurisdiction could differ from that set forth herein, perhaps significantly. Generally, however, the following laws and regulations could affect Tawa's business.

3.1 *State Regulation of Insurers*

State insurance authorities have broad regulatory powers with respect to various aspects of the insurance business, including licensing to transact business, admittance of assets to statutory surplus, regulating unfair trade and claims practices, establishing reserve requirements and solvency standards and regulating investments and dividends. State insurance laws and regulations require insurers to file financial statements with insurance departments in every state where they are licensed or authorized or accredited or eligible to conduct insurance business. The operations of US licensed insurers are subject to periodic examination by those departments at any time.

3.2 *US Insurance Holding Company Regulation*

US licensed insurers are subject to the insurance holding company laws of the states where they are domiciled. These laws require the insurance company to register with the state insurance department and to furnish annually financial and other information about the operations of affiliates within the holding company system. Generally, all material transactions among companies in the holding company system affecting the US insurer, including sales, loans, reinsurance agreements, service agreements and dividend payments, must be fair and, if material or of a specified category, these transactions require prior notice and approval or non-disapproval by the state Commissioner of Insurance.

3.3 *Acquisition of Control of a US Insurance Company*

Before any entity can acquire control of an insurance company domiciled in any US state, the acquisition of control must be approved by the domiciliary state's Commissioner of Insurance, as well as the approval of any other states where the company is licensed. The approving Commissioner is required to consider various factors, including the financial strength of the applicant acquiring company (i.e. Tawa), the integrity and management experience of the applicant's board of directors and executive officers, the applicant's plans for the future operations of the insurer and any possible anticompetitive results that may arise from the proposed acquisition of control.

Control over a US domiciled insurer is generally presumed to exist if any person directly or indirectly owns, controls, holds with the power to vote, or holds proxies representing 10 per cent. of the voting securities of the US insurer. If there is any change in such control, the prior approval of the Commissioner of Insurance is required. With respect to surplus lines insurers and/or accredited reinsurers such as CX Re, notice of a change in control would have to be given to all jurisdictions where the insurer is so eligible or accredited. In some states, substantial additional information about the change in control may have to be provided.

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

3.4 *Surplus Lines Insurance*

State insurance laws universally prohibit persons and companies from transacting the business of insurance in a state without first being licensed in that state. Such laws are referred to as "doing business" laws. If an unauthorized entity engages in activities that require a license in a particular US jurisdiction, this would constitute the unauthorized transaction of insurance and would typically be punishable by fines, cease and desist orders, and, potentially, criminal sanctions for the officers and directors involved. However, state insurance laws contain certain exemptions to the "doing business" laws. One of these exemptions, which exists in every state, is the lawful transaction of surplus lines business.

"Surplus lines" is a mechanism that permits specially licensed brokers to "export" risks to unlicensed insurers when licensed insurers do not or will not write such risks. Generally, state surplus lines laws require that licensed surplus lines brokers place surplus lines business only with insurers that the state Insurance Department has approved or otherwise made eligible to accept surplus lines business. CX Re was at one time an eligible surplus lines insurer in many US states, and as such is subject to the surplus lines laws of the various states with respect to its run-off business.

"Alien" surplus lines companies; i.e. those that are domiciled outside the US, must maintain surplus lines trust funds for the protection of US policyholders. These trust funds represent a percentage of the insurer's estimates of unpaid claims liabilities relating to surplus lines business, adjusted by provisions for potential bad debt on premium earned but not received and for any anticipated profit on unearned premium. No credit is allowed for potential reinsurance recoveries. The trust account must be established in a qualified US financial institution, consisting of cash deposited with the trustee, securities or an acceptable letter of credit on behalf of US policyholders. The trust account must be funded as follows: for business written on or after January 1, 1998, 30 per cent. of any amount up to the first $200,00,000 plus 25 per cent. of any amount up to the next $300,000,000 plus 20 per cent. of any amount up to the next $500,000,000 plus 15 per cent. of any amount in excess of $1,000,000,000. At the present time, surplus lines trust funds are subject to a minimum of $5.4 million and a maximum of $100 million. CX Re currently maintains such a surplus lines trust fund for its run-off surplus lines liabilities in the US.

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

(a) is in respect of a specified loss event;

(b) represents value for liabilities previously reserved in respect of policyholders claiming for this event; and

(c) cannot be obtained from other US dollar assets held outside the relevant US trust fund.

3.5 *Reinsurance*

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

Similar to the surplus lines trust fund above, accredited reinsurers in the US must maintain credit for reinsurance trust funds for the benefit of their US cedants. The trust account must be established in a qualified United States financial institution, consisting of cash deposited with the trustee, securities or an acceptable letter of credit on behalf of US policyholders. The credit for reinsurance trust account must be funded at 100 per cent. of gross liabilities reinsured from US insurers. The reinsurer could be subject to examination to determine the adequacy of the trust. CX Re currently maintains such a credit for reinsurance trust fund for its run-off liabilities in the US.

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

(a) is in respect of a specified loss event;

(b) represents value for liabilities previously reserved in respect of policyholders claiming for this event; and

(c) cannot be obtained from other US dollar assets held outside the relevant US trust fund.

PART VII

ADDITIONAL INFORMATION

1. Responsibility and Reports by Experts

1.1 The Company, whose name and registered office appears on page 3, and the Directors, whose names also appear on page 3, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

1.2 Deloitte & Touche LLP, reporting accountants to the Company, whose name and address appears on page 3, has given and not withdrawn its written consent to the inclusion of the accountant's reports in Part IV and the references thereto and to its name in the form and context in which they are included in this document and accepts responsibility for such report. Deloitte & Touche LLP has no material interest in the Company.

2. Incorporation and Principal Activities

2.1 The Company was incorporated and registered in England and Wales on 17 April 2001 as a private company limited by shares with the name Tawa UK Ltd and with registration number 4200676.

2.2 On 10 July 2007, the Company was re-registered by the Registrar of Companies as a public company limited by shares with the name Tawa plc and with the same registration number as on incorporation.

2.3 The Company's registered office and principal place of business is located at the London Underwriting Centre, No.3 Minster Court, Mincing Lane, London EC3R 7DD (telephone: 020 7204 8000).

2.4 The Company is a company limited by shares and accordingly the liability of the members of the Company is limited.

2.5 The principal activity of the Company is to act as a holding company for the Group.

2.6 The principal legislation under which the Company operates is the Act and regulations made thereunder. The Company is domiciled in the UK. The Ordinary Shares have been issued under the Act.

3. Company and Share Capital

3.1 The Company was incorporated with an authorised share capital of £1,000,000 divided into 9,990,000 Preferred Shares and 10,000 Deferred Shares. On incorporation two Preferred Shares were issued to Anthony Richmond as the subscriber to the Memorandum of Association and were subsequently transferred to Financière Pinault on 17 April 2001.

3.2 The following changes in the authorised and issued share capital of the Company have occurred between its incorporation on 17 April 2001 and 19 July 2007 (being the most recent practicable date before publication of this document):

3.2.1 pursuant to a shareholders' resolution passed on 18 December 2001 the share capital of the Company was increased from £1,000,000 divided into 9,990,000 Preferred Shares and 10,000 Deferred Shares to £150,000,000 divided into 1,499,990,000 Preferred Shares and 10,000 Deferred Shares;

3.2.2 on 18 December 2001, the amount outstanding under an intra-group loan of £1,003,418.20 from Financière Pinault to the Company was capitalised by the issue of 10,034,182 fully paid Preferred Shares to Financière Pinault. In addition, 2,000 fully paid Deferred Shares were issued and allotted on the same date.

3.2.3 on 25 April 2003, the amount outstanding under an intra-group loan of £19,346,181 from Financière Pinault to the Company was capitalised by the issue of 193,461,810 fully paid Preferred Shares to Financière Pinault.

3.2.4 on 26 April 2004, in consideration for the transfer by Financière Pinault to the Company of the preferred shares in the share capital of Tawa Associates, the Company issued 88,505,460 fully paid Preferred Shares to Financière Pinault.

3.3 As at the date of this document and immediately following Admission, the authorised and issued share capital of the Company is and will be as follows:

		Authorised Share capital (number)	*£*	*Issued fully paid or credited as fully paid (number)*	*£*
(A)	**As at the date of this document**				
	Class of Shares				
	Preferred shares	1,499,990,000	149,999,000	292,001,453	29,200,145.30
	Deferred shares	10,000	1,000	2,000	200.00
	Total		150,000,000		29,200,345.20
(B)	**Immediately following Admission**				
	Class of Shares				
	Ordinary shares	200,000,000	20,000,000	101,891,017	10,189,101.70

3.4 Share capital reconciliation:

	At 1 January 2006 (number)	*At 31 December 2006 (number)*
Issued Preferred Shares	292,001,452	292,001,452
Issued Deferred Shares	2,000	2,000

3.5 The provisions of Section 89(1) of the Act (to the extent not disapplied pursuant to Section 95 of the Act) confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in Section 94(2) of the Act) which are, or are to be, paid up in cash. Statutory rights of pre-emption have been disapplied in order (i) to permit the Directors to allot the Placing Shares and the Subscription Shares, (ii) to give the Directors flexibility in relation to rights or other pre-emptive issues; and (iii) to permit the Directors to allot Ordinary Shares for cash having a nominal value of up to 10 per cent. of the issued Ordinary Share capital of the Company immediately following Admission.

3.6 Save as disclosed in this document, there are no Ordinary Shares which are held by, or on behalf of, the Company and none of the Company's subsidiary undertakings holds any shares in the Company.

3.7 On Admission, Shareholders will suffer an immediate dilution of 21.5 per cent. of their interests in the Company. After taking into account the Subscription, the aggregate dilution to Shareholders is 15.7 per cent. of their interests in the Company.

3.8 Subject to the special rights or restrictions attaching to any shares or any class of shares issued by the Company in the future, the holders of fully paid Ordinary Shares are entitled *pari passu* amongst themselves, but in proportion to the nominal amount of the Ordinary Shares held by them, to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of liquidation of the Company.

3.9 Other than the current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for such admission been made nor are there intended to be any other arrangements for dealings in such Ordinary Shares.

3.10 With effect from Admission, all of the Ordinary Shares will be in registered form and, subject to the Ordinary Shares being admitted to and accordingly enabled for settlement in CREST, the Ordinary Shares will be capable of being held in uncertificated form. No temporary documents of title will be issued. The Ordinary Shares are denominated in pounds sterling.

3.11 The ISIN number of the Ordinary Shares is GB00B1Z5KB73.

3.12 As of 19 July 2007 (being the most recent practicable date before publication of this document) other than the awards detailed in paragraph 19 of Part II of this document (and in the case of the Executive Directors, paragraph 5.3 below) no options have been granted over Ordinary Shares and the Board has no intention of granting any options or awards over Ordinary Shares before the date of Admission.

3.13 Save as disclosed in this Part VII, the Company has not issued any securities not representing the share capital and there are no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company.

3.14 Resolutions:

3.14.1 On 10 July 2007 a written resolution of the holders of Preferred Shares and Deferred Shares was passed pursuant to which it was resolved that the Company re-register as a public limited company and change its name to Tawa plc. On 10 July 2007, the re-registration and change of name became effective.

3.14.2 On 28 June 2007, a special resolution was passed by Gilles Erulin and the other individual holders of Deferred Shares (Financière Pinault being disenfranchised from voting), pursuant to which:

(a) the terms of the Reorganisation Deed were approved and authorised for the purposes of section 164 of the Act;

(b) the Directors were generally and unconditionally authorised, in accordance with section 80 of the Act, to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £1 provided that:

(i) the authority shall expire at the conclusion of the annual general meeting of the Company in 2008 or, if earlier, the date fifteen months from the passing of the resolution, unless previously revoked, varied or renewed by the Company in general meeting;

(ii) the Company shall be entitled to make, prior to the expiry of such authority, any offer or agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot any relevant securities pursuant to such offer or agreement as if such authority had not expired; and

(iii) all prior authorities to allot relevant securities pursuant to section 80 of the Act to be revoked but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities;

(c) the Directors were granted power pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred by paragraph 3.14.2(b) as if section 89(1) of the Act did not apply to any such allotment, provided that this power is limited to:

(i) the allotment of 1 Preferred Share to Financière Pinault; and

(ii) shall expire at the conclusion of the annual general meeting of the Company in 2008 or, if earlier, the date fifteen months from the passing of the resolution unless previously varied, revoked or renewed by the Company in general meeting provided that the Company may, before such expiry, make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power hereby conferred had not expired; and

all prior powers granted under section 95 of the Act were revoked provided that such revocation shall not have retrospective effect; and

(d) any provision of the Reorganisation Deed which may be or become or take effect as a contingent purchase contract was approved.

3.14.3 On 18 and 19 July 2007 special resolutions were passed by the holders of Preferred Shares and Deferred Shares which were conditional, *inter alia*, upon Admission taking place by 1 August 2007 (or such later date as the Company and KBC Peel Hunt may in advance agree in writing) pursuant to which, *inter alia*:

(a) each of the Preferred Shares and the Deferred Shares comprised in the authorised and/or issued share capital of the Company was consolidated and subdivided into an Ordinary Share;

(b) the authorised share capital of the Company was (i) decreased from £150,000,000 to £120,800,654.70 by the cancellation of 291,993,453 authorised Preferred Shares forthwith upon the repurchase ("Repurchase") of such shares ("Repurchased Shares") to be made upon Admission and (ii) decreased from £120,800,654.70 to £20,000,000 by cancellation of 1,008,006,547 authorised but unissued Ordinary Shares arising from paragraph 3.14.3(a) above;

(c) 79,990,000 Ordinary Shares were resolved to be issued by way of capitalisation of part of the sum standing to the credit of the capital redemption reserve of the Company arising from the Repurchase, credited as fully paid up, in the proportion of 7,999 new Ordinary Shares for each Preferred Share (other than the Repurchased Shares) and Deferred Share held immediately before the consolidation and subdivision to be made pursuant to the resolution referred to in paragraph 3.14.3(a) above;

(d) the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to allot relevant securities (as defined in section 80(2) of the Act) of the Company up to a maximum aggregate nominal amount of £15,282,652.60 provided that:

(i) in the case of any allotment (other than allotments of equity securities pursuant to the Placing and Subscription and capitalisation issue that authority is limited to the allotment of relevant securities up to an aggregate nominal amount equal to one half of the issued share capital of the Company immediately following Admission;

(ii) that authority shall expire at the conclusion of the annual general meeting of the Company in 2008 or, if earlier, the date fifteen months from the passing of the resolution, unless previously revoked, varied or renewed by the Company in general meeting;

(iii) the Company shall be entitled to make, prior to the expiry of such authority, any offer or agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot any relevant securities pursuant to such offer or agreement as if such authority had not expired; and

(iv) all prior authorities to allot relevant securities pursuant to section 80 of the Act to be revoked but without prejudice to the allotment of any relevant securities already made or to be made pursuant to such authorities.

(e) the Directors be granted power pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred by paragraph 3.14.3(d) as if section 89(1) of the Act did not apply to any such allotment, provided that this power is limited to:

(i) the allotment of equity securities in connection with any invitation made to holders of Ordinary Shares and holders of other securities to the extent expressly required and (if considered appropriate by the Directors) permitted by the rights attached thereto and made to any other persons entitled to participate in such allotment from time to time to subscribe by way of rights, open offer or otherwise where equity securities respectively attributable to the interests of such persons and all the holders of such Ordinary Shares and (if applicable) other securities are respectively proportionate (as nearly as may be) to the respective number of Ordinary Shares and (if applicable) other securities held or deemed held by them on the record date of such allotment subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange or otherwise in any territory;

(ii) the allotment of equity securities pursuant to the Placing and Subscription and capitalisation issue; and

(iii) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of £1,018,910.20 or, if less, the amount equal to the aggregate nominal amount of shares representing ten per cent. of the issued ordinary share capital of the Company immediately following Admission;

and shall expire at the conclusion of the annual general meeting of the Company in 2008 or, if earlier, the date fifteen months from the passing of the resolution unless previously varied, revoked or renewed by the Company in general meeting provided that the Company may, before such expiry, make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power hereby conferred had not expired;

(f) all prior powers granted under section 95 of the Act be revoked provided that such revocation shall not have retrospective effect;

(g) Articles of Association were adopted containing, *inter alia*, the provisions summarised in paragraph 4 of this Part VII; and

(h) the Performance Share Plan and the Deferred Share Bonus Plan were adopted.

3.15 The allotment of the Placing Shares and the Subscription Shares will be made by a resolution of the Directors or a duly constituted committee of the Directors.

4. Memorandum of Association and Articles of Association

4.1 The Memorandum of Association of the Company provides that its principal object includes to carry on the business of a holding company and to coordinate the business of any companies in which the Company is for the time being interested. The objects of the Company are set out in full in clause 4 of its Memorandum of Association.

4.2 The Articles of Association contain, *inter alia*, provisions to the following effect:

4.2.1 *Variation of class rights and changes of share capital*

(a) The special rights attached to any class of shares may, subject to any applicable law, be varied or abrogated (whether or not the Company is being wound up) in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class (excluding any share of that class held as treasury shares) or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class. The quorum at any such general meeting is two persons holding or representing by proxy at least one-third in nominal value of the issued shares of that class and at an adjourned meeting the quorum is one holder present in person or by proxy, whatever the amount of his shareholding. Any holder of shares of the class in question present in person or by proxy may demand a poll. Every holder of shares of the class shall be entitled, on a poll, to one vote for every share of the class held by him. Except as mentioned above, such rights shall not be varied.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the Articles of the conditions of issue of such shares, be deemed to be varied by the creation or issue of new shares ranking *pari passu* therewith or subsequent thereto.

(b) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount, cancel any shares not taken or agreed to be taken by any person and sub-divide its shares into shares of a smaller amount.

(c) The Company may by special resolution reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve subject to any authority required by law or any rights from time to time attached to any shares of the Company. Subject to applicable law, and to the rights attaching to existing shares, the Company may purchase its own shares.

(d) Without prejudice to any special rights previously conferred on the holders of any shares or class of shares for the time being in issue and subject to the provisions of the Act, any share in the Company may be allotted or issued with such preferred, deferred or other special rights, or subject to such restrictions whether in regard to dividend, return of capital, voting or otherwise, as the Company may from time to time by ordinary resolution determine, and, subject to the provisions of the Act, the Company may issue shares which are to be redeemed or are liable to be redeemed at the option of the Company, or the holder, on such terms and in such manner as may be set out in the Articles of Association or (as to the date on or by which or the dates between which the shares are to be or may be redeemed) as may be determined by the Directors prior to the date of issue.

4.2.2 *General meetings*

The Company must hold an annual general meeting each year in addition to other general meetings held in the year. The Directors can call an extraordinary general meeting at any time.

At least 21 clear days' written notice must be given for every annual general meeting and for any other meeting to pass a special resolution. For all other general meetings, not less than 14 days' written notice must be given. The notice for any general meeting must state:

(a) whether the meeting is an annual general meeting or extraordinary general meeting;

(b) the date, time and place of the meeting;

(c) the general nature of the business of the meeting; and

(d) any intention to propose a resolution as a special or extraordinary resolution.

All members who are entitled to receive notice under the Articles must be given notice.

Before a general meeting starts, there must be a quorum, being three members present in person or by proxy.

Each director can attend and speak at any general meeting.

4.2.3 *Votes of members*

Subject to statute and any special rights or restrictions as to voting attached to any class of shares, at any general meeting, on a show of hands, every member who is present in person has one vote and, in the case of a poll, every member present in person or by proxy has one vote for every share of which he is the holder. No member (unless the directors determine otherwise) is entitled to attend or vote at a general meeting either personally or by proxy if he or any person appearing to be interested in shares held by him has been duly served with a notice under Section 793 of the 2006 Act and is in default for the prescribed period (as defined in the Articles) in supplying to the Company the information required thereby or, unless the Directors determine otherwise, if any calls from him have not been paid. Furthermore, no member is entitled to cast any vote in respect of any disenfranchised shares (as defined in the Articles) either personally or by representative or proxy at a general meeting of the Company or at a meeting of the holders of any class of shares of the Company on any poll or to exercise any other rights conferred by membership in respect of the disenfranchised shares in relation to general meetings of the Company or meetings of the holders of any class of the shares of the Company or polls.

4.2.4 *Body corporate acting by representatives*

The duly authorised representative of a corporate shareholder may exercise the same powers on behalf of that corporation as it could exercise if it were an individual shareholder.

4.2.5 *Directors*

(a) A Director is not required to hold any qualification shares but shall be entitled to hold shares in the capital of the Company.

(b) The amount of any fees payable to Directors shall be determined by the Directors provided that they shall not in any year exceed an aggregate amount of £700,000 or such other sum as may from time to time be approved by ordinary resolution. Any such fees shall be divisible among the Directors as they may agree, or failing agreement, equally. The Directors are also entitled to be repaid all reasonable expenses incurred by them respectively in the performance of their duties. The Company may (subject to the Act) satisfy all or any part of fees payable to Directors by the allotment of shares or by the acquisition of shares for the benefit of the Directors. Any Director holding an executive office or otherwise performing services which in the opinion of the Directors are outside the scope of his ordinary duties as a Director may be paid such remuneration as the Directors may determine.

(c) The Directors may establish and maintain the establishment of any non-contributory or contributory pension or superannuation funds for the benefit of, and give donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of, or Directors or officers of and holding any salaried employment or office in, the Company or any other company which is its holding company or in which the Company or such holding company has any interest or which is allied to or associated with the Company or of any company which is a subsidiary undertaking of the Company or of any such other company ("associated companies") and the families and dependants of any such persons; and the Directors shall have power to purchase and maintain insurance against liability for any persons who are or were at any time Directors, officers (excluding auditors) or employees of, the Company or, its associated companies and for trustees of any pension fund in which employees of the Company or its associated companies are interested.

(d) The Directors may from time to time appoint one or more of their body to be the holder of any executive office (including the office of chairman, deputy chairman, managing director, chief executive or chief financial officer) on such terms and for such period as they may determine.

(e) Subject to the provisions of applicable law and provided that he has disclosed to the Directors the nature and extent of any material interest of his, a Director notwithstanding his office:

(i) may be a party to, or otherwise interested in, any contract, transaction or arrangement with the Company or in which the Company is otherwise interested;

(ii) may be a director or other officer of, or employed by, or a party to, any transaction or arrangement with, or otherwise interested in any body corporate promoted by the Company or in which the Company is otherwise interested;

(iii) may hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of Director and may act by himself or through his firm in a professional capacity to the Company and in any such case on such terms as to remuneration and otherwise as the Directors may arrange; and

(iv) shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such contract, transaction or arrangement or from any interest in any such body corporate, and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.

(f) Save as specifically provided in the Articles, a Director may not vote in respect of any contract, transaction or arrangement or any other proposal whatsoever in which he (together with any interest of any person connected with him within the meaning of section 346(2) of the Act) has any material interest otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company. A Director will not be counted in the quorum of a meeting in relation to any resolution on which he is debarred from voting.

(g) Subject to applicable law, a Director is (in the absence of some other material interest than is indicated below) entitled to vote (and will be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:

(i) the giving of any guarantee, security or indemnity to him in respect of money lent or obligations incurred by him at the request or for the benefit of the Company or of its subsidiary undertakings;

(ii). the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) any contract, transaction, arrangement or proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting thereof;

(iv) any contract, transaction, arrangement or proposal to which the company is or is to be a party concerning any other body corporate in which he (together with any persons connected with him) do not to his knowledge hold an interest in shares (as that term is used in Part 22 of the Act) representing one per cent. or more of either any class of the equity share capital or the voting rights in such body corporate (any such interest being deemed for the purposes of this Article to be a material interest in all circumstances);

(v) any contract, transaction, arrangement or proposal for the benefit of the employees of the company or any of its subsidiary undertakings and which does not award any Director any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and

(vi) any contract, transaction, arrangement or proposal concerning any insurance against liability which the Company is empowered to purchase and/or maintain for, or for the benefit of, any Directors or group of persons who include Directors, provided that for that purpose "insurance" means only insurance against liability incurred by a Director in respect of any act or omission by him in the execution of the duties of his office or otherwise in relation thereto or any insurance which the Company is empowered to purchase and/or maintain for, or for the benefit of any groups of persons consisting of or including, Directors.

(h) A resolution for the appointment of two or more persons as Directors by a single resolution shall not be moved at any general meeting unless a resolution that it shall be so moved has first been agreed by the meeting without any vote being given against it, and any resolution moved in contravention of this provision of the Articles shall be void.

(i) The Articles provide that statutory provisions which would have the effect of rendering any person ineligible for appointment as a Director or liable to vacate office as a Director on account of his having reached any specified age, or of requiring notice or any other special formality in connection with the appointment of any Director over a specified age, shall not apply to the Company.

(j) The Directors and officers of the Company are entitled to be indemnified against all losses and liabilities which they may sustain in the execution of the duties of their office, except to the extent that such an indemnity is not permitted under the Act, the 2006 Act or the applicable law or regulation. Subject to company law restrictions, the Company may provide a Director with funds to meet his expenditure in defending any civil or criminal proceedings brought or threatened against him in relation to the Company.

(k) The Directors are obliged to retire by rotation and are eligible for re-election at the third annual general meeting after the annual general meeting at which they were elected. Any non-executive Director who has held office for eight years or more is subject to re-election annually. Any Director appointed by the Board holds office only until the next annual general meeting when he is eligible for re-election.

4.2.6 *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property, assets (present and future) and uncalled capital and, subject to applicable law, to create and issue debenture and other loan stock and debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Directors shall restrict the borrowings of the Company and exercise all voting and other rights and powers of control exercisable by the Company in relation to its subsidiary undertakings, so as to secure (as regards subsidiary undertakings, so far as by such exercise they can secure) that the aggregate principal amount (together with any fixed or minimum premium payable on final repayment or redemption) at any one time remaining outstanding of all moneys borrowed by the Group and from time to time owing to persons outside the Group shall not at any time, without the previous sanction of an ordinary resolution of the Shareholders of the Company, exceed an amount equal to five times the Adjusted Consolidated Capital and Reserves (as defined in the Articles).

4.2.7 *Transfer of shares*

All transfers of uncertificated shares shall be made in accordance with and be subject to the provisions of the Regulations and the facilities and requirements of the relevant system (as defined in the Regulations) and, subject thereto, in accordance with any arrangements made by the Directors in relation to the evidencing of title to and transfer of an uncertificated share. All transfers of certificated shares may be effected by transfer in writing in any usual form or in any other form acceptable to the Directors and shall be executed by or on behalf of the transferor and, if the share is partly paid, the transferee.

Save as provided below, the Articles do not contain any restriction on the transferability of fully paid shares, provided that the Company has no lien over the shares, the shares are not disenfranchised shares (as defined in Article 140 of the Articles), and the member is not in default of any notice duly served under section 793 of the 2006 Act as referred to in the Articles. Furthermore, in the case of certificated shares, if in addition to the foregoing provisos in this paragraph the instrument of transfer is in favour of not more than four transferees and in respect of only one class of shares and is duly stamped (if so required), and the provisions in the Articles relating to the deposit of instruments of transfer accompanied by the relevant share certificate have been complied with, the Directors may not refuse to register the relevant transfer.

The Board may, in its absolute discretion and without assigning any reason therefore, refuse to register any transfer of shares which are not fully paid provided that, where any such shares are admitted to AIM or admitted to the Official List, such discretion may not be exercised in such a way as to disturb the market in those shares or to prevent dealings in such shares from taking place on an open and proper basis.

There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares.

4.2.8 *Dividends and distribution of assets on liquidation*

The holders of shares are entitled pari passu amongst themselves, but in proportion to the numbers of shares held by them and to the amounts paid up or credited as paid up, to share in the whole of the profits of the Company paid out as dividends. There is no fixed date on which an entitlement to dividend arises.

In the event of liquidation of the Company, the liquidator may, with the authority of an extraordinary resolution and any other sanction required by law, divide among the members in specie or in kind the whole or any part of the assets of the Company, whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and determine how such division shall be carried out as between the members or different classes of members.

4.2.9 *Unclaimed dividends*

Any dividend unclaimed after a period of 12 years from the date of its declaration shall be forfeited and shall revert to the Company.

4.2.10 *Forfeiture and lien*

If a member fails to pay in full any call or instalment of a call on the due date for payment, the Directors may at any time serve a notice on him/her requiring payment and stating that in the event of non-payment in accordance with such notice the shares on which the call was made will be liable to be forfeited. Any share so forfeited may be disposed of by the Company within three years, otherwise it shall be cancelled.

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of such share.

The Company may sell in such manner as the Directors think fit any share on which the Company has a lien fourteen clear days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell in default, shall have been given to the holder for the time being of the share.

4.2.11 *CREST*

The Articles of Association are consistent with CREST membership and, amongst other things, allow for the holding and transfer of shares in uncertificated form.

4.2.12 *Disclosure of interests in shares*

Section 793 of the 2006 Act provides a public company with the statutory means to ascertain the persons who are, or have within the last three years been, interested in its relevant share capital and the nature of such interests. When a shareholder receives a statutory notice of this nature, he or she has 14 days to comply with it, failing which the Company may decide to restrict the rights relating to the relevant shares and send out a further notice to the holder (known as a "disenfranchisement notice"). The disenfranchisement notice will state that the identified shares no longer give the shareholder any right to attend or vote at a shareholders' meeting or to exercise any other right in relation to shareholders' meetings and if the shares represent at least 0.25 per cent. of their class may otherwise direct that dividends that would otherwise be payable in respect of these shares be withheld and in certain cases that transfers of such shares shall not be registered.

Once the disenfranchisement notice has been given, if the Directors are satisfied that all the information required by any statutory notice has been supplied, the Company shall, within not more than 7 days, withdraw the disenfranchisement notice.

The Articles do not restrict in any way the provisions of section 793 of the 2006 Act.

4.2.13 *Non-UK shareholders*

Shareholders with addresses outside of the UK are not entitled to receive notices from the Company unless they have given the Company an address within the UK at which such notices shall be reserved.

4.2.14 *Untraced shareholders*

Subject to various notice requirements, the Company may sell any of a shareholders' shares in the Company if, during a period of 12 years, at least three dividends on such shares have become payable and no dividend has been claimed during that period in respect of such shares and the Company has received no communication from such shareholder.

4.2.15 *Electronic communications*

The Company may communicate electronically with its members in accordance with the provisions of the Companies Act 1985 (Electronic Communications) Order SI 2000/3373.

4.2.16 *Controller provisions*

The Directors may refuse to register any transfer of a share if they are satisfied that the person(s) to whom such share is transferred is a controller or has a notifiable holding (as those expressions are defined in Article 140 of the Articles) unless the Directors are satisfied that (each of the following being an "Approved Event") there is no controller in relation to the shares concerned, or the FSA's has granted its unconditional written confirmation that it does not object to the transferee being a controller or to such notifiable holding, or, if any condition to approval of the relevant person acquiring such a holding has been imposed, that such condition has been met to the satisfaction of the FSA, or the FSA shall not have objected (within any relevant period prescribed for objection) to the relevant person acquiring such a holding in the Company.

The Directors may serve notice upon any person requiring him to furnish the Directors with information for the purpose of determining whether the member is a controller (as that expression is defined in Article 140 of the Articles) or has a notifiable holding.

If the Directors are satisfied that any person has become a controller or has a notifiable holding then (unless the Directors are satisfied that an Approved Event has occurred), the Directors shall be entitled to serve a disfranchisement notice on such person referring to the cessation of voting rights attaching to such number of shares and calling for a disposal of such number of shares as would ensure that such person ceased to be a controller or to have the relevant notifiable holding.

If any person (to the knowledge of the Directors and without the consent of the Council) becomes a controller or has a notifiable holding, the Directors shall be entitled to serve a disenfranchisement notice on such person referring to the cessation of voting rights and calling for disposal of his or its disenfranchised shares.

If the disenfranchisement notice as referred to above is not complied with, the Directors have the power to make a disposal of the disenfranchised shares on behalf of that person at the best price reasonably obtainable in all the circumstances.

In the event that a disenfranchisement notice is served in accordance with this paragraph 4.2.16, the holder of the disenfranchised shares shall not be entitled to receive notice of, or to attend or vote at, any general meeting of the Company.

In the event that a notice is served in accordance with this paragraph 4.2.16, unless information is furnished within fourteen days after service of notice the holder of such shares shall not be entitled to attend and vote at a general meeting of the Company other than in respect of such shares which it has been established by the Directors are not shares in respect of which a disposal may be required. This suspension of voting rights shall not expire until information is furnished to the satisfaction of the Directors.

4.3 Save as disclosed in this document, there is nothing contained in the Articles of Association which would have the effect of delaying, deferring or preventing a change of control.

4.4 Save as disclosed in this document, there are no conditions in the Articles of Association governing changes of control which are more, stringent than is required by law.

5. Directors' and Other Interests ,

5.1 As at the date of this document and immediately following Admission, the holdings of the Directors and their families (as defined in the AIM Rules for Companies), all of which (unless otherwise stated) are beneficial, in the issued share capital of the Company (excluding their interests in options set out below), which have been notified by each Director to the Company are, and will be, as follows:

(A) At the date of this document

Name	*Number of Deferred Shares*	*% of issued Deferred Share Capital*
R A G Jackson	–	–
G M J Erulin	110	5.5
C G Bird	226	11.3
D A Vaughan	172	8.6
A J Hamilton	–	–
J Hendrickson	–	–
P M M Barbizet	–	–
G F Pagniez	50	2.5
L Brivezac	–	–

(B) Immediately following Admission

Name	*Number of Ordinary Shares*	*% of issued Ordinary Share capital*
R A G Jackson	–	–
G M J Erulin	880,000	0.9
C G Bird	880,000	0.9
D A Vaughan	880,000	0.9
A J Hamilton	50,000	0.05
J Hendrickson	–	–
P M M Barbizet	–	–
G F Pagniez	400,000	0.4
L Brivezac	–	–

5.2 The Ordinary Shares held by the Executive Directors immediately following Admission will be subject to the orderly marketing arrangements detailed in paragraph 17 of Part II of this document.

5.3 Details of conditional awards over Ordinary Shares expected to be held by the Directors under the Performance Share Plan on Admission are as follows:

Name	*Exercise price per Share*	*Aggregate Value (on grant) of Ordinary Shares under Awards* £
G M J Erulin	nil	525,000
C G Bird	nil	145,000
D A Vaughan	nil	396,000
		1,066,000

For the purposes of determining the total number of Ordinary Shares held under an award, the value of an Ordinary Share will be equal to the Placing Price.

The terms on which such awards have been granted are as described in paragraph 19 of Part II and paragraph 7.1 below.

5.4 Save as disclosed above and in paragraphs 5.1 and 5.3 of this Part VII, none of the Directors will immediately following Admission have any interest, whether beneficial or non-beneficial, in any of the share capital of the Company or any of its subsidiaries.

5.5 In addition to the interests of the Directors disclosed or referred to in paragraphs 5.1 and 5.3 of this Part VII, the Directors are aware of the following persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company or who, directly or indirectly, will be interested (within the meaning given to this expression in Rule 5 of the DTR and in the case of paragraph (A) below as if such provision was applicable to the Company as a company already admitted to AIM) in 3 per cent. or more of the issued share capital of the Company as at the date of publication of this document and immediately following Admission:

(A) At the date of this document

Name	*Number of Preferred Shares*	*% of issued Preferred Share capital*
Financière Pinault	292,001,453	100

(B) Immediately following Admission

Name	*Number of Ordinary Shares*	*% of issued Ordinary, Share capital*
Financière Pinault	80,491,017	79.0

5.6 Save as disclosed in this document and so far as the Company is aware, no person, directly or indirectly, jointly or severally, exercises or could exercise control over the Company. The Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

5.7 Save as disclosed in this document there are no outstanding loans granted or guarantees provided by the Group to or for the benefit of any of the Directors or their connected persons.

5.8 Save as disclosed in this document, no Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company taken as a whole and which was effected by the Company during the current or immediately preceding financial year or which was effected by the Company during an earlier financial year and remains in any respect outstanding or unperformed.

5.9 The Company's Shareholders listed in paragraphs 5.1(B) and 5.5(B) above do not have preferential voting rights to other holders of Ordinary Shares.

5.10 None of the Directors or any member of their families hold any related financial product referenced to the Ordinary Shares.

6. Directors' Service Agreements and Other Information

Save as set out below, there are no existing or proposed service contracts between any of the Directors and the Company or any member of the Group providing for benefits upon termination of employment.

6.1 Executive Directors

The following Executive Directors will prior to Admission enter into service agreements with the Company which will be conditional upon Admission, details of which are set out below.

Director's Name	*Director's Title*	*Director's Remuneration (£)*
Gilles Erulin	Chief Executive Officer	350,000
Colin Bird	Chief Financial Officer	355,000*
David Vaughan	Chief Operating Officer	330,000

*Note: This figure includes CX Re and KX Re salaries

6.1.1 The service agreement of Gilles Erulin has a fixed term until 31 March 2010 and is terminable by 12 months' notice in writing from either party served at any time.

6.1.2 The service agreements of Colin Bird and David Vaughan have no fixed terms and are terminable by 12 months' notice in writing from either party served at any time. The Company may also, at its sole and absolute discretion, place Executive Directors on garden leave for a maximum of six months. During any period of garden leave the Executive Directors will continue to receive their salary and contractual benefits.

6.1.3 The salaries of the Executive Directors are subject to an annual review by the Board and are inclusive of any directors' fees.

6.1.4 Under each of the agreements the Executive Directors are entitled to receive further remuneration by way of an annual bonus up to a maximum of 80 per cent. of the executive's annual salary which will be determined by the Board on an annual basis. The annual bonus is comprised of a variable pay budget of up to 10 per cent. of salary, a business performance bonus target of up to 30 per cent. and a discretionary top up of up to 40 per cent. of salary.

6.1.5 Under each of the agreements the Executive Directors are entitled to 30 days holiday per year excluding statutory, bank and public holidays, company car or car allowance, life assurance at four times salary, income protection, private medical insurance and permanent health insurance.

6.1.6 The Executive Directors are subject to restrictive covenants applying following the termination of their employment for a period of 12 months. The restrictive covenants to which the Executive Directors are subject are non-solicitation of customers and clients and non-solicitation of senior employees, directors and consultants.

6.1.7 The Executive Directors are also subject to a confidentiality undertaking during employment and following the termination of their employment.

6.1.8 In addition to his service contract with the Company, Colin Bird will retain his existing part-time employment contracts with CX Re (dated 23 May 2005) and with KX Re (dated 4 May 2007). Colin Bird's service agreement with the Company refers to his employment contracts with CX Re and KX Re and clarifies how his roles with each of CX Re, KX Re and the Company will work together. Colin Bird's entitlements and benefits are detailed in his service contract with the Company (as set out above); for example an aggregate of his holiday days (30 in total) is stated as he receives 12 days under each of his CX Re and KX Re employment contracts.

Colin Bird is the Chief Executive Officer of CX Re and receives a salary of £120,000 for this role and is the Chief Executive Officer of KX Re and receives a salary of £80,000 for this role. These salaries are subject to annual review by the boards of CX Re and KX Re respectively. Both of these employment contracts are terminable by six months' notice in writing by either party and following either party giving notice Colin Bird can be placed on garden leave during which time he will continue to receive his salary and contractual benefits.

Under each of Colin Bird's employment contracts with CX Re and KX Re he is subject to restrictive covenants for a period of 12 months. The restrictive covenants to which Colin Bird is subject to are non-solicitation of customers and clients. In addition Colin Bird is subject to a confidentiality undertaking during his employment and following the termination of his employment with CX Re and KX Re.

6.1.9 Gilles Erulin's service contract provides for a relocation package of £100,000 in 2007, £66,666 in 2008 and £33,333 in 2009.

6.2 Non-Executive Directors

The following are particulars of the non-executive Directors' letters of appointment with the Company, which are conditional upon Admission:

6.2.1 On 18 July 2007, Robin Jackson entered into a non-executive letter of appointment with the Company pursuant to which his appointment as a non-executive chairman ("Chairman") was confirmed. His appointment is for an initial term from 18 July 2007 until the annual general meeting of the Company to be held in 2009, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice. The Board may invite him to serve for additional two-year periods thereafter. The Company may terminate Robin Jackson's appointment as Chairman at any time and without notice (or payment in lieu of notice), without terminating his appointment as a Non-Executive Director. From Admission, Robin Jackson will be paid a flat fee of £35,000 gross per year (excluding expenses and which fee the Company may offer to satisfy by the allotment or acquisition on behalf of the Director of Ordinary Shares) and a fee of £2,000 per Company's board meeting, such fee being subject to an annual review by the Board. In addition, he will also be paid a chairmanship fee of £15,000 gross per year, which is payable from Admission and is subject to an annual review by the Board. The chairmanship fee will cease to be payable upon termination of Robin Jackson's appointment as Chairman. An additional fee of £1,000 per committee meeting will be paid if he is asked to serve on one or more of the Board committees.

6.2.2 On 18 July 2007, Patricia Barbizet, Gilles Pagniez and Loïc Brivezac each entered into their respective non-executive letters of appointment with the Company pursuant to which their appointment as Non-Executive Directors and Financière Pinault Shareholder Director (as defined in the Relationship Deed was confirmed. Their appointment began on 18 July 2007 and will continue until its initial termination on the date of the annual general meeting of the Company to be held in 2009, unless terminated earlier by and at the discretion of either party upon one month's written notice or by Financière Pinault pursuant to their rights under the Relationship Deed. Following such initial termination, the Board may invite them to serve for additional two year periods. From Admission, Patricia Barbizet, Gilles Pagniez and Loïc Brivezac are entitled to a flat fee of £35,000 gross per year each (excluding expenses and which fee the Company may offer to satisfy by the allotment or acquisition on behalf of the Director of Ordinary Shares) and a fee of £2,000 each per Company's board meeting, such fee being subject to an annual review by the Board. An additional fee of £1,000 per committee meeting will be paid to Patricia Barbizet, Gilles Pagniez or Loïc Brivezac if either of them is asked to serve on one or more of the Board committees.

6.2.3 On 18 July 2007, John Hendrickson and Anthony Hamilton each entered into their respective non-executive letters of appointment with the Company pursuant to which their appointment as Non-Executive Directors was confirmed. Their appointment is for an initial term from 18 July 2007 until the annual general meeting of the Company to be held in 2009, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice. Thereafter, the Board may invite them to serve for additional two-year periods. From Admission, John Hendrickson and Anthony Hamilton will be entitled to a flat fee of £35,000 gross per year each (excluding expenses and which fee the Company may offer to satisfy by the allotment or acquisition on behalf of the Director of Ordinary Shares) and a fee of £2,000 each per Company's board meeting, such fee being subject to an annual review by the Board. An additional fee of £1,000 per committee meeting will be paid to John

Hendrickson or Anthony Hamilton if either of them is asked to serve on one or more of the Board committees.

6.3 **Aggregate Remuneration**

The aggregate remuneration payable and benefits in kind granted to all directors (including pension contributions and any discretionary bonus paid) by the Company, or any of its subsidiaries, was £1,102,773 in respect of the financial year ended 31 December 2006 and is estimated to be approximately £1,516,974 (excluding any discretionary bonus which may become payable) for the current year ending 31 December 2007 under the arrangements in force with effect from Admission.

6.4 **Additional Information on the Board**

6.4.1 Details of other directorships or partnerships held by each of the Directors in the five years preceding the date of this document in respect of companies other than the Company and other members of the Group are as follows:

Director	*Current Directorships/Partnerships*	*Past Directorships/Partnerships*
R A G Jackson	Greenvale Consultancy, Ltd. Marketform Managing Agency, Ltd. Online Risks Limited	R F Bailey (Underwriting Agencies), Ltd. Newline Syndicate Management, Ltd.
G M J Erulin	Aurora National Life Assurance (USA) CX Reinsurance Company, Ltd. Tawa SA Artemis SA Artemis Conseil SA Aurora SA Arok International SA Artemis Obligations SA Bouygues Construction SA Delor SA Kerstone SA New California Life Holding (USA) SEBTO Le Point SA Tennessee SA	AOBA (Japan) CX Management Company, Ltd. Guilbert SA Rexel SA
C G Bird	Barbican Holdings Limited East Herts Citizens Advice Service Farringdon Insurance Company Limited IPR Services Limited The Mara Rianda Charitable Trust	Insolvency Practitioners Association CX Management Company, Ltd. CX Reinsurance Company, Ltd. Hertford Citizens Advice Bureau
A J Hamilton	AXA UK PLC AXA Equity & Law PLC AXA SA (France) AXA Financial Inc. (USA) AXA Equitable Life Insurance Company (USA) Binley Limited MONY Life Insurance Company MONY Life Insurance Company of America (USA) Valderrama Golf Club (Spain)	Byas, Mosley & Co Limited Byas, Mosley Group Limited CX Reinsurance Company Ltd. Eldon Capital Management Ltd. Eldon Capital Holdings Ltd. Fox-Pitt, Kelton Group Ltd. Fox-Pitt, Kelton Limited FPK Nominees Ltd. FPK Trustees Ltd. PPR SA Swiss Re Capital Markets Ltd.

Director	*Current Directorships/Partnerships*	*Past Directorships/Partnerships*
J J Hendrickson	SFR/LLC CX Reinsurance Company, Ltd. Validus Holdings Limited United America Indemnity, Ltd.	Allied World Assurance Holdings Ltd. Atradius (Gerling NCM Holdings) American Credit Indemnity Fox-Pitt, Kelton, Inc. Smith Barney Swiss Re America Swiss Re Capital Partners Swiss Re Life & Health, Inc. Swiss Re Private Equity Advisers Securitas Capital, LLC Securitas Capital, LLC Westburg Paribas Becker
P M M Barbizet (née Dussart)	Aurora National Life Assurance Company (USA) ABN AMRO Air France SA Agefi SA Arok International Artemis SA Artemis 5 SARL Artemis Conseil SA Artemis 11 (Simetra Obligations) SA Aurora SA (Holding company of ANLAC) Christies Plc Château Latour SC Delor SA (Europeenne pour la Promotion du Sport) SA Financière Pinault SCA Finintel SA Fnac SA Garuda SA Gucci NV Kerstone SA Kerusa LLC New California Life Holding (USA) Piasa SA PPR SA Productions du 18 Juin SARL Shamrock SARL SEBDO Le POINT SA Societe Nouvelle du Theatre Marigny SA TF1 SA Yves Saint Laurent Couture SAS Tallandier Editions SA Taranis SNC Tennessee SA	Afipa SA Bouygues SA Company news SA Conseil de Marches Financiers Yves Saint Laurent Parfums SA

Director	*Current Directorships/Partnerships*	*Past Directorships/Partnerships*
G F Pagniez	Artemis SA Artemis 15 SA Artemis Conseil SA Agefi SA Aurora SA Christies (UK) Plc Films du Lendemain SA Garuda SA Piasa SA SEBDO Le POINT SA Tennessee SA	AOBA (Japan) Agefinance SA Company News SA Nord Est SA Simetra Obligations SA Stade Rennais FC SASP
L Brivezac	Artemis 15 SA Artemis Obligations SA (Europeenne pour la Promotion du Sport) SA Stade Rennais FC SASP	

6.4.2 At the date of this document except as otherwise disclosed in this paragraph none of the Directors has:

(a) had any unspent convictions in relation to indictable offences;

(b) been declared bankrupt or entered into an individual voluntary arrangement;

(c) been a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;

(d) been a partner in a partnership at the time of, or within 12 months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of any such partnership;

(e) had his assets the subject of any receivership or has been a partner of a partnership at the time of or within the 12 months preceding, any assets thereof being the subject of a receivership; or

(f) been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

Patricia Barbizet was part of the settlement reached with the Office of the United States Attorney for the Central District of California in December 2003 arising out of the sale of Executive Life Insurance Company's junk bond portfolio and the sale of its insurance business in the early 1990s. This settlement did not include any criticism of Patricia Barbizet.

Gilles Erulin and Colin Bird were directors of CX Management Company Ltd which was placed into members' voluntary liquidation on 22 March 2004. The liquidation was concluded on 6 August 2004 and the company was dissolved on 10 November 2004.

As professional insolvency office holders (administrators, liquidators, provisional liquidators, receivers, controllers under schemes of arrangement), Colin Bird and David Vaughan have been named in civil litigation against insolvent companies to which they have been appointed and have brought civil litigation against third parties. They have not been involved in any litigation other than in a professional capacity.

Robin Jackson was non-executive director of Russell Consulting (UK) Ltd which was placed in administration in 1997.

7. Share Plans

Paragraphs 7.1 to 7.3 below summarise the new share incentive arrangements established by the Company:

7.1 Performance Share Plan

This paragraph 7.1 summarises the principal terms of the Tawa 2007 Performance Share Plan, which was approved and adopted by the shareholders of the Company on 18 July 2007. It is intended that awards will be satisfied using newly issued Ordinary Shares ("Shares").

Details of the number and/or value of Ordinary Shares over which awards are expected to be made under the Performance Share Plan on or prior to the date of Admission are set out in paragraph 19 of Part II and, in the case of the Executive Directors, paragraph 5.3 of Part VII.

Operation

7.1.1 The Remuneration Committee of the board of directors of the Company will supervise the operation of the Performance Share Plan.

Eligibility

7.1.2 Any employee (including an executive director) of the Company and any employee of a subsidiary of the Company, will be eligible to participate in the Performance Share Plan at the discretion of the Remuneration Committee.

Structure of awards

7.1.3 Awards are conditional rights to acquire Shares and may be structured as nil or nominal cost options with a short exercise period, conditional awards or forfeitable awards. The Remuneration Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash.

7.1.4 The Remuneration Committee may, in its discretion, determine to grant awards in conjunction with the investment (on either a compulsory or voluntary basis) of up to 100 per cent. of an individual's bonus (after the deduction of tax and social security contributions) in Shares ("Investment Shares"). The Remuneration Committee shall determine the terms on which Investment Shares may be acquired and whether or not Investment Shares must be acquired on or following the grant of an award.

Grant of awards

7.1.5 Awards may be granted on or prior to Admission and, thereafter, within six weeks of the date of Admission or six weeks following the announcement of the Company's results for any period, or at any other time when the Remuneration Committee considers there are exceptional circumstances which justify the granting of awards.

7.1.6 Awards may not be granted after the tenth anniversary of the date of Admission.

7.1.7 No payment is required for the grant of an award other than where an award is granted in conjunction with the investment of part of an individual's bonus in Investment Shares as described above. Awards are not transferable, except on death. Awards are not pensionable.

Individual limit

7.1.8 The total number of Shares over which awards may be granted to an employee on or before Admission shall be determined by the Remuneration Committee. After Admission an employee may not receive awards in any financial year (excluding awards granted on or before Admission) over Shares having a market value in excess of 100 per cent. of his annual base salary in that financial year. In exceptional circumstances, the Remuneration Committee may, in its discretion, determine to grant awards over shares worth up to 200 per cent. of an employee's annual base salary in any financial year.

Performance Conditions

7.1.9 The vesting of awards granted to executive directors will be subject to performance conditions set by the Remuneration Committee on or prior to the grant of an award. The vesting of awards granted to other employees may not be subject to performance conditions. For initial awards to the Executive Directors, awards will be subject to the following conditions:

(a) One-half of the award will be subject to a condition measuring the compound growth in the Company's Net Asset Value per Share before dividends as determined by the Committee ("NAV") over a period commencing on the date of Admission and ending on 31 December 2009; and

(b) One-half of the award will be subject to a condition measuring the Company's relative Total Shareholder Return ("TSR") performance against a group of companies comprising the constituents of the FTSE Small Cap excluding investment trusts (the "Comparator Group") over a single period of three years.

7.1.10 The portion of an award subject to the NAV condition will not vest unless NAV growth during the performance period is at least equal to an average of 12.5% compound per annum, thereafter this portion of the award will vest as follows:

NAV per Share growth during the performance period (average compound)	*Percentage of one-half of the total number of Shares subject to the award that will vest*
Less than 12.5%	Nil
Equal to 12.5%	25%
Equal to or greater than 20%	100%
Between 12.5% and 20%	Pro-rata between 25% and 100%

7.1.11 For the avoidance of doubt, in respect of awards granted to Executive Directors before, on or shortly following Admission, the performance period will commence on Admission and the base NAV (i.e. the post-money NAV per Share on Admission as defined in the Admission Document) will be compared to the NAV per Share for the financial year ending 31 December 2009 to determine the extent of vesting of this portion of the award.

7.1.12 The portion of the award subject to the TSR performance condition will vest as follows:

Rank of the Company's TSR against comparator companies at the end of the performance period	*Percentage of one-half of the total number of Shares subject to the award that will vest*
Below median	Nil
Median	25%
Upper quartile	100%
Between median and upper quartile	Pro-rata between 25% and 100%

7.1.13 The performance period for the TSR condition will begin on the date of grant of an award. For initial awards the "base" TSR of the Company and the companies in the Comparator Group will be the average Net Returns of such companies for the first three months of the performance period, with the "end" TSRs being the relevant Net Returns for the three month period preceding the end of the performance period (except in the event of a takeover when TSR may be averaged over a shorter period).

7.1.14 The Remuneration Committee will have the power to set different performance conditions for future awards to executive directors. The Remuneration Committee may also vary the performance conditions applying to existing awards, provided the Remuneration Committee considers the varied conditions are fair and reasonable and not materially less challenging in the circumstances than the original conditions.

Vesting of awards

7.1.15 Awards to executive directors will normally vest three years after grant.

7.1.16 The Remuneration Committee will have the flexibility to determine the dates on which awards to other employees (not executive directors) will vest and the percentage of shares that vest on each date.

7.1.17 Awards will normally vest to the extent that Investment Shares (if applicable) have been retained, the applicable performance conditions (if any) have been satisfied and provided the participant is still employed, or holds an office, in the Company's group on vesting or such other date specified by the Remuneration Committee on or prior to the grant of an award.

7.1.18 Where an award has been granted in conjunction with the acquisition of Investment Shares, the participant will be able to sell or otherwise transfer his related Investment Shares on the vesting of that award. If a participant transfers, charges or otherwise disposes of his Investment Shares before the vesting of the award associated with those Investment Shares then that award shall lapse pro-rata to the number of Investment Shares so transferred, charged or otherwise disposed.

Leaving employment

7.1.19 An award will normally lapse upon a participant ceasing to hold employment or be a director within the Company's group prior to the vesting of an award (or such other date specified by the Remuneration Committee on or prior to the grant of an award). However, if a participant ceases to be an employee or a director because of his death, injury, disability, retirement, his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the Remuneration Committee, then his award will normally vest when he leaves. The extent to which an award will vest in these situations will depend upon the retention of Investment Shares (if applicable) and the extent to which the performance conditions (if any) have, in the opinion of the Remuneration Committee, been satisfied. The Remuneration Committee may pro-rate the award to reflect the reduced period of time between its grant and vesting.

7.1.20 If a participant ceases to be an employee or director in the Company's group for one of the "good leaver" reasons specified above, the Remuneration Committee can decide that his award will vest on the date when it would have vested if he had not ceased such employment or office, subject to the performance conditions (if any) measured at that time. Awards may also be pro-rated.

Corporate events

7.1.21 In the event of a takeover or winding up of the Company (not being an internal corporate reorganisation) all awards will vest early subject to the extent that Investment Shares (if applicable) have been retained and the performance conditions (if any) have, in the opinion of the Remuneration Committee, been satisfied at that time. Awards may also be pro-rated.

7.1.22 In the event of an internal corporate reorganisation awards will be replaced by equivalent new awards over shares in a new holding company unless the Remuneration Committee decides that awards should vest on the basis which would apply in the case of a takeover.

7.1.23 If a demerger, special dividend or other similar event is proposed which, in the opinion of the Remuneration Committee, would affect the market price of Shares to a material extent, then the Remuneration Committee may decide that awards will vest on the basis which would apply in the case of a takeover as described above.

Participants' rights and rights attaching to Shares

7.1.24 Awards of conditional shares and options will not confer any shareholder rights until the awards have vested or the options have been exercised and the participants have received their Shares. Holders of awards of forfeitable Shares will have shareholder rights from when the awards are made except they may be required to waive their rights to receive dividends.

7.1.25 The Remuneration Committee may decide that participants will receive a payment (in cash and/or Shares) on or shortly following the vesting of their awards, of an amount equivalent to the dividends that would have been paid on those Shares between the time when the awards were granted and the time when they vest. Alternatively, participants may have their awards increased as if dividends were paid on the Shares subject to their award and then reinvested in further Shares.

7.1.26 Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital

7.1.27 In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Remuneration Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Overall Performance Share Plan limits

7.1.28 The Performance Share Plan may operate over new issue Shares, treasury Shares or Shares purchased in the market.

7.1.29 In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent. of the issued ordinary share capital of the Company under the Performance Share Plan and any other employee share plan adopted by the Company.

7.1.30 Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investors decide that they need not count.

7.1.31 Shares issued or to be issued on or prior to the date of Admission to the trustee of any employees' benefit trust established by the Company or under or pursuant to awards or options granted on or prior to the date of Admission will not count towards these limits.

Alterations

7.1.32 The Remuneration Committee may, at any time, amend the Performance Share Plan in any respect.

7.2 Deferred Share Bonus Plan

This paragraph 7.2 summarises the principal terms of the Tawa 2007 Deferred Share Bonus Plan which was approved and adopted by the shareholders of the Company on 18 July 2007.

Operation

7.2.1 The Remuneration Committee of the board of directors of the Company will supervise the operation of the Deferred Share Bonus Plan.

Eligibility

7.2.2 Any employee (including executive directors) of the Company or any subsidiary of the Company who is eligible to receive a discretionary bonus under any arrangement that rewards performance in the prior year or years operated by the Company or any subsidiary of the Company will be eligible to participate in the Deferred Share Bonus Plan at the discretion of the Remuneration Committee.

Structure of awards

7.2.3 Awards are conditional rights to acquire Shares and may be structured either as conditional shares, nil or nominal cost options with a short exercise period or as forfeitable shares.

7.2.4 Awards are not subject to any performance conditions as they relate to a portion of discretionary bonus that has already been determined by reference to performance.

Grant of awards

7.2.5 Awards may be granted on or prior to Admission, and thereafter within six weeks of Admission or either six weeks following the payment of bonuses or the announcement of results for any period.

7.2.6 Awards may be granted at any other time if the Remuneration Committee considers there are circumstances which justify granting of such awards.

7.2.7 No awards may be granted after the tenth anniversary of the date of Admission.

7.2.8 No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

Individual limit

7.2.9 An executive director may not receive awards over Shares with a market value on grant in excess of his bonus (the maximum bonus potential is currently set at 80 per cent. of his salary).

Vesting of awards

7.2.10 The Remuneration Committee will have the flexibility to determine the dates on which awards vest and the percentage of shares capable of vesting on such dates. Awards will not normally vest unless the participant is still employed, or holds an office, in the Company's group on the applicable vesting date.

Leaving employment

7.2.11 Awards will normally lapse upon a participant ceasing to hold employment or to be a director within the Company's group. However, if a participant ceases to be an employee or a director because of his death, injury, disability, retirement his employing company or the business for which he works being sold out of the Company's group, or in other circumstances at the discretion of Remuneration Committee, then his award will vest in full upon him leaving (on such terms as the Remuneration Committee may determine).

Corporate events

7.2.12 In the event of a takeover or winding-up of the Company (not being an internal corporate reorganisation) awards will vest in full (on such terms as the Remuneration Committee may determine).

7.2.13 If a demerger, special dividend or other similar event is proposed which, in the opinion of the Remuneration Committee, would affect the market price of Shares to a material extent, then the Remuneration Committee may decide that awards will vest in full (on such terms as the Remuneration Committee may determine).

7.2.14 In the event of an internal corporate reorganisation, awards will be replaced by equivalent new awards over shares in a new holding company unless the Remuneration Committee decides that awards should vest on the basis which would apply in the case of a takeover.

Participants' rights and rights attaching to Shares

7.2.15 Awards of conditional shares and options will not confer any shareholder rights until the awards have vested or the options have been exercised.

7.2.16 Holders of awards of forfeitable shares will have shareholder rights from when the awards are made except they may be required to waive their rights to receive dividends.

7.2.17 Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue.

Variation of capital

7.2.18 In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of Shares, the Remuneration Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Overall Deferred Share Plan Limits

7.2.19 The Deferred Share Bonus Plan may operate over new issue Shares, treasury Shares or Shares purchased in the market.

7.2.20 In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent. of the issued ordinary share capital of the Company under the Deferred Share Bonus Plan and any other employee share plan adopted by the Company.

7.2.21 Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investors decide that they need not count.

7.2.22 Shares issued or to be issued to the trustee of any employees' benefit trust established by the Company on or prior to the date of Admission or under awards or options granted on or prior to the date of Admission will not count towards these limits.

Alterations

7.2.23 The Deferred Share Bonus Plan may be amended by the Remuneration Committee at any time.

7.3 **Employee Benefit Trust**

The principal terms of the Tawa Employee Benefit Trust are as follows:

7.3.1 It is initially intended that the Tawa Employee Benefit Trust will be used in conjunction with the Tawa 2007 Performance Share Plan and the Tawa 2007 Deferred Share Bonus to either make or satisfy awards under these plans.

7.3.2 The beneficiaries of the trust will be employees and former employees of the Company and its subsidiaries, any holding company of the Company or any subsidiaries of that holding company, and certain classes of their dependents.

7.3.3 The trustee of the trust will have wide powers of investment and be permitted to borrow moneys. The trustee of the trust will have power to subscribe for Shares or acquire Shares in the market or from treasury but will not be permitted to hold more than 5 per cent. of the

Company's issued share capital (excluding any Shares it holds as nominee) at any time without prior approval of shareholders of the Company.

7.3.4 It is intended that the trustees of the trust will be funded by loans or gifts from the Company or any of its subsidiaries and will only invest in Shares for use with the Company's employee share plans or otherwise for allocation to beneficiaries.

7.3.5 The trustee of the trust will be independent of the Company. The Company will have power to appoint new or additional trustees and remove any trustee.

7.3.6 A professional trustee may charge fees in the normal course of business for acting as trustee of the trust.

8. Subsidiary and Associated Undertakings

8.1 The Company will on Admission have the following subsidiaries and associated undertaking incorporated in England and Wales or Bermuda:

Name of Company	*Principal Activity*	*Proportion of capital held and voting power (directly or indirectly) (%)*
Tawa Associates Ltd	No operating activities; serves as a holding company to Tawa Management Ltd	100
Tawa Management Ltd	Staff & management of run-off portfolios; serves as a holding company to Tawa Management (Bermuda) Ltd	100
KX Re Holdings Limited	No operating activities; serves as holding company to KX Reinsurance Company Ltd	100
KX Reinsurance Company Limited	Run-off Portfolio	100
Tawa Management (Bermuda) Ltd	Dormant (incorporated in Bermuda)	100
CX Reinsurance Company Limited	Run-off of non-life insurance and reinsurance business	12.65 of ordinary shares; 49.95 of voting rights

8.2 Other than Tawa Management (Bermuda), a company incorporated and registered in Bermuda, all other companies listed in paragraph 8.1 of this Part VII are incorporated and registered in England and Wales.

8.3 All companies listed in paragraph 8.1 of this Part VII have their registered offices at the London Underwriting Centre, 3 Minster Court, Mincing Lane, London EC3R 7DD, save for Tawa Management (Bermuda) whose registered office is at Crawford House, 50 Cedar Avenue, Hamilton, Bermuda HM11.

9. UK Taxation

The following statements are intended as a general guide only to current United Kingdom tax legislation and to what is understood to be the current practice of HM Revenue & Customs. The statements made are intended for United Kingdom resident beneficial shareholders who hold their shares as investments and not as trading stock and may not apply to certain types of shareholder. **Any person who is in any doubt as to his tax position, or who is, may be or may become subject to tax in a jurisdiction other than the United Kingdom should seek appropriate professional advice without delay.**

9.1 **Dividends**

The Company

9.1.1 Under current United Kingdom tax law no tax is required to be withheld on the payment of any dividend by the Company to a shareholder (whether or not such shareholder is resident in the United Kingdom).

United Kingdom resident shareholders

9.1.2 An individual shareholder who is resident in the United Kingdom for tax purposes who receives a dividend from the Company will be entitled to a tax credit that is equal to one-ninth of the cash dividend received or 10 per cent. of the aggregate of the cash dividend received and the related tax credit ("the gross dividend"). The related tax credit can be offset against the total liability of the individual shareholder to income tax on the dividend.

9.1.3 An individual shareholder who is liable to income tax at no more than the basic rate (currently 22 per cent., to be reduced to 20 per cent. with the starting rate of 10 per cent. to be removed from 6 April 2008) will be subject to income tax at the rate of 10 per cent. on the gross dividend so that the tax credit will satisfy in full the individual shareholder's liability to income tax on the dividend received. An individual shareholder who is liable to income tax at the higher rate will be subject to tax at the rate of 32.5 per cent. on the gross dividend to the extent that the gross dividend, when treated as the top slice of the shareholder's income, falls above the threshold for higher rate income tax. In these circumstances, therefore, the related tax credit will not satisfy in full the individual shareholder's liability to income tax on the gross dividend and the shareholder will have to account for additional tax equal to 22.5 per cent. of the gross dividend or 25 per cent. of the cash dividend received.

9.1.4 Subject to certain exceptions concerning traders in securities, a corporate shareholder resident in the United Kingdom for the purposes of corporation tax will normally not be liable to corporation tax on dividends received from the Company.

Non-United Kingdom resident shareholders

9.1.5 A shareholder who is not resident in the United Kingdom for tax purposes and who receives a dividend from the Company will generally be unable to claim repayment from HM Revenue & Customs of any part of the tax credit attaching to dividends paid by the Company. Any ability to make a claim for such repayment will depend upon the terms of any applicable double taxation agreement that exists between the United Kingdom and the country in which the shareholder is resident. A shareholder who is not resident in the United Kingdom may be subject to foreign taxation on income from dividends under domestic law and should take his own professional advice regarding his liability to tax on dividends received from the Company and regarding the possibility of making a claim under a double taxation agreement.

9.2 **Chargeable Gains**

General

9.2.1 A shareholder resident and/or ordinarily resident in the United Kingdom may incur a liability to capital gains tax (if an individual shareholder) or to corporation tax (if a corporate shareholder) on any capital gain that is realised by a sale or other disposal of his Ordinary Shares.

Indexation allowance

9.2.2 Shareholders within the charge to United Kingdom corporation tax will, for the purposes of calculating chargeable gains but not losses, be entitled to claim an indexation allowance (i.e.

a tax relief in respect of the increase in value arising from inflation) based on the amounts paid for their Ordinary Shares.

Taper relief

9.2.3 Shareholders who are within the charge to United Kingdom capital gains tax are not entitled to claim indexation allowance but are able to claim taper relief. Taper relief applies to reduce the percentage of any gain that is chargeable to capital gains tax, depending upon the length of time for which the relevant shares have been held before they are disposed of.

Non-resident shareholders

9.2.4 An individual shareholder who is neither resident nor ordinarily resident in the United Kingdom for tax purposes and who sells or otherwise disposes of his Ordinary Shares will not normally be liable to capital gains tax on any resulting gain. A corporate shareholder resident outside the United Kingdom will also have no liability to corporation tax on any gain arising on a sale or other disposal of its Ordinary Shares. However, a liability to capital gains tax (in the case of an individual shareholder) or to corporation tax (in the case of a corporate shareholder) may arise where the non-resident carries on a trade in the United Kingdom and the Ordinary Shares that are disposed of have been used or held for the purposes of a trade carried on by a permanent establishment of the non-resident in the United Kingdom.

9.3 **Stamp Duty and Stamp Duty Reserve Tax**

9.3.1 The subscription for new Ordinary Shares pursuant to the Placing will be free of stamp duty and stamp duty reserve tax unless the new Ordinary Shares are acquired for the purposes of an arrangement for the provision of clearance services or the issue of depositary receipts. The Company will not be responsible for the payment of stamp duty and stamp duty reserve tax in any such case.

9.3.2 A subsequent transfer or sale of Ordinary Shares otherwise than pursuant to the Placing will normally be subject to stamp duty on the instrument of transfer normally at the rate of 0.5 per cent. of the amount or value of the consideration. A charge to stamp duty reserve tax (generally levied at the same rate and generally collected through CREST for shares within that system) may arise on any unconditional agreement to transfer such shares although any liability will be cancelled and any stamp duty reserve tax already paid will be repaid, provided that an instrument of transfer is executed and stamp duty is paid on that instrument within six years after the date on which the liability to stamp duty reserve tax arises. Stamp duty reserve tax is generally payable by the purchaser except where the purchase is effected through a stockbroker or other financial intermediary, in which case such person will normally account for the stamp duty reserve tax and should indicate that this has been done in any contract note issued to the purchaser. Stamp duty is generally paid by the purchaser or transferee.

9.3.3 Special rules in connection with stamp duty and SDRT apply to market makers, broker dealers and certain other persons.

10. Intellectual Property and Information Technology

10.1 Except as disclosed in this paragraph 10 of this Part VII, the Group is not dependent on any intellectual property licences, which are material to the Company's business or profitability.

10.2 KX Re holds a licence of a key piece of third party software known as "Senator Vision" for the purposes of carrying out its insurance and reinsurance business, acquired from CCC pursuant to the novation deed dated 4 May 2007.

10.3 CX Re holds a licence of a key piece of software known as a "Senator" character-based package, which is a different package to the "Senator Vision" package described in paragraph 10.2 of this Part

VII. This is licensed to CX Re pursuant to a licence agreement dated 30 October 2002, which also allows CX Re to use the source code to create derivative works and maintain the software.

10.4 The two other key business systems are the Management Information System ("MIS") and Commutation Support System ("CSS"). These systems were created internally by employees of the Group and the Group believes that the intellectual property rights in these systems are owned by the Group. Some independent contractors were involved in the creation of the models some time ago, and Tawa Management believe that their services contracts would have made clear that any rights in those models would have vested in Tawa Management, but the services contracts have not been located. The systems are operated on Oracle databases, for which the Group has valid licences.

10.5 Etienne Rosenstiehl and Financière Pinault are currently in the process of assigning their intellectual property rights to Tawa Management in three models known as "Cephas", "Thomas" and "Martin" which are to be used by the Company and which have been specially created for Tawa Management to use in the course of its business, such as for asset and liability management reporting, value contribution analysis, business planning, stress testing and modelling the behaviour of property and casualty reinsurance companies in run off. Financière Pinault were involved in the creation of these models. It is expected that the assignment of the intellectual property rights will take place prior to Admission on 26 July 2007.

10.6 The Group is also the licensee of a number of other standard software packages which are used in the course of its business, including the "Citrix" operating system, the "Sun" accounts package and the "Resq" actuarial software.

10.7 Tawa Management is the owner of a registered trade mark for "Tawa" in Japan, the UK and the US, and is being registered as the proprietor of the trade marks at the relevant trade mark registries.

10.8 The Company and its subsidiaries have been granted a licence (as set out in paragraph 18.1 of this Part VII) to use the Financière Pinault and Groupe Artémis logo until the earlier of a change of control date or 31 December 2008.

11. Employees

The Group currently has approximately 100 employees, split between claims and commutations management (35), reinsurance (6), consulting (5), actuarial (6), executive and management (11) and support staff (34). The average number of employees has increased over the past three years as set out below.

The Group employees	*2003*	*2004*	*2005*	*2006*
Average employees	82	84	94	97

12. Pensions

12.1 The Group contributes to the Tawa Management Retirement Benefit Plan (the "RBP"), a defined contribution pension plan administered for the benefit of Tawa Management's employees. With the exception of one employee, all other Tawa Management employees are members of the RBP.

12.2 In addition, Tawa Management provides for all employees to have a life assurance benefit in case an employee is unable to work for 26 weeks due to an accident or ill health.

12.3 The RPB rules only allow employees of Participating Employers (as defined under the RPB rules) to be members of the scheme. Presently the only Participating Employer is Tawa Management. The RPB rules allow other Group companies to be Participating Employers provided that such companies abide by the rules. It is intended that the Company will be joined to the scheme as a Participating Employer so that the Executive Directors can either continue with their existing pensions arrangements (as in case of David Vaughan) or have the option of joining the RBP (as in case of Colin Bird and Gilles Erulin).

12.4 David Vaughan has elected to contribute £15,000 per month of his salary into the RBP. The Company will contribute an additional five per cent. of the salary contribution into the RBP, which is a portion of the savings that the Company makes on National Insurance payments.

12.5 Colin Bird has a personal pension plan. The Company has agreed to contribute 20 per cent. of his Tawa salary into this plan.

12.6 The contracts of employment of the KX Re employees will be transferred to Tawa Management pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE"). Some of these employees have contractual entitlements to participate in a final salary pension scheme. The Company will be offering the KX Re employees the chance to participate in the RBP and, in addition, will be ensuring where possible that the KX Re employees are offered equivalent benefits with Tawa Management. The KX Re employees' contractual right to participate in a particular occupational pension scheme (such as a right to be a member of a final salary scheme) will not transfer under TUPE and, accordingly, they will not be able to claim breach of contract.

13. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group is sufficient for its present requirements, that is for at least 12 months from the date of Admission.

14. Mandatory Bids, Squeeze-out and Sell-out Rules relating to the Ordinary Shares

Mandatory bids

14.1 The Takeover Code applies to the Company. Under the Takeover Code, if an acquisition of Shares were to increase the aggregate holding of the acquirer and its concert parties to shares carrying 30 per cent. of more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for the Shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of shares by a person holding (together with its concert parties) shares carrying between 30 and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

Squeeze-out

14.2 Under the Companies Act, if an offeror were to acquire 90 per cent. of the Shares within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are compulsorily acquired under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

Sell-out

14.3 The Companies Act also gives minority shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Shares, any holder of shares to which the offer relates who has not accepted the offer can by a written communication to the offeror require it to acquire those shares.

14.4 The offeror would be required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises its rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

15. Litigation

15.1 Save for the matters set out in this paragraph 15 of this Part VII below, no member of the Group is, nor, has been, involved in any governmental, legal or arbitration proceedings during the 12 months preceding the date of this document which may have, or has had, a significant effect on the Company's or the Group's financial position or profitability and, so far as the Directors are aware, there are no such proceedings pending or threatened against any member of the Group.

15.2 Tawa has made reserves in its audited accounts for the year ending 31 December 2006 in respect of each of the following matters. Tawa generally makes reserves for the full amount claimed in any litigation relating to the Group. However, in certain cases it will reserve for a lesser amount, having made its own assessment of the case and/or after taking appropriate legal advice. If necessary, Tawa will increase or decrease the amount reserved in each case as matters progress, or as additional information is discovered.

15.3 Discover Reinsurance Company made a claim against CX Re in an arbitration in the State of New York for the amount of approximately $3.776 million. The matter was stayed pending commutation negotiations. As a result of those negotiations, CX Re entered into a commutation agreement with Discovery Reinsurance Company on 20 December 2006, whereby they paid $2.6 million to Discover Reinsurance Company, incorporating claims agreed for settlement, discounted reserves and IBNR, and a residual balance of $200 thousand to be paid in full either in the final segment of a group commutation or in the ordinary course of business. The arbitration is likely to be dismissed shortly.

15.4 MDM Group Associates, Inc. made a claim against CX Re in the State of Colorado. MDM Group Associates, Inc. initially obtained a judgment against CX Re of $4.9 million, but that was reversed in full on appeal in May 2007. MDM Group Associates, Inc. petitioned the Colorado Supreme Court for review, but has subsequently agreed a settlement in principle with CX Re. The petition was dismissed on 21 June 2007.

15.5 New Cap Reinsurance Corporation Limited made a D&O claim in February 1999 against CX Re and other subscribing underwriters, relating to allegations of misconduct relating to New Cap Reinsurance Corporation Limited's insolvency. CX Re's share of the claim is $3.349 million. The insurers denied the claim based on allegations of fraudulent conduct. Those allegations subsequently led to criminal charges against the directors, who were found not guilty in June 2007 following an Australian trial. It is unclear whether civil claims (subject to a different burden of proof) will follow. One of the directors commenced a claim in November 2006 against CX Re and the other underwriters in New York in respect of their Australian defence costs. The New York action is currently at the discovery stage.

15.6 QBE Reinsurance (Europe) Limited made a claim against CX Re for CAN$12 million in the High Court in London in July 2006. A settlement has been agreed in principle between QBE Reinsurance (Europe) Limited and CX Re.

15.7 The Underwriter Insurance Company Limited made a claim against CX Re for approximately $4.232 million in an arbitration in England. In May 2006 CX Re was ordered to pay $5.35 million, including interest and costs. The interest and costs were not reserved for, but the original amount claimed was reserved for in full.

15.8 Liberty Mutual Insurance Company made a claim against CX Re for the amounts of $7.5 million and CAN$8.4 million in a Canadian arbitration relating to two major programs, one relating to residual value and the other a general reinsurance program. Commercial negotiations resulted in an overall commutation which was entered into on 13 October 2006.

15.9 Reliance Insurance Company (in liquidation) made a claim against CX Re for the total amount of $5.2 million in an arbitration in Pennsylvania in respect of four claims. CX Re asserted a potential avoidance defense as a counter-claim and the matter was resolved by an overall commutation of all liabilities, including the four claims, which was entered into on 6 July 2006.

16. Consents

16.1 KBC Peel Hunt Ltd, whose name and registered office appears on page 3, is acting in the capacity of Nominated Adviser and broker to the Company. KBC Peel Hunt Ltd has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear and the references to the same in the form and context in which they appear.

16.2 Deloitte & Touche LLP has given and not withdrawn its written consent as referred to in paragraph 1.2 of this Part VII.

17. Third Party Information

The information in Part II which has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

18. Related Party Transactions

Save as disclosed in this paragraph 18, note 30 in Part IV(A)(ii), note 24 in Part IV(B)(ii), the material contracts listed in paragraph 19 of this Part VII below, the management agreements described in paragraph 20 of this Part VII and the CX Re Reorganisation summarised in paragraph 21 of this Part VII, there are no related party transactions between the Company and its associated companies or joint venture companies that were entered into during the financial years ended 31 December 2003, 2004, 2005 and 2006 and during the period between 1 January 2007 to 19 July 2007 (being the latest practicable date prior to the publication of this document).

18.1 Pursuant to a letter agreement dated 28 June 2007, Financière Pinault and Artémis agreed to allow the Company and its subsidiaries to continue using the logo of Financière Pinault and Groupe Artémis (the "Artémis Logo"), until the earlier of a change of control date (defined as the first day when Financière Pinault or an affiliate thereto will own less than 30 per cent. of the voting shares of the Company) or 31 December 2008.

No later than the earlier of 10 days after a change of control date described above or 1 September 2008, the Company is required to notify in writing to Financière Pinault either (a) that the Company does not require the use of the Artémis Logo any more, in which case the Company shall stop using the Artémis Logo no later than 120 days after the date of such notice; or (b) that the Company wishes to retain the use of the Artémis Logo, in which case, Financière Pinault and Artémis have absolute discretion to agree to or refuse such request. In case of refusal, the Company will stop using the Artémis Logo no later than 150 days after the date of its request.

18.2 On 21 December 2006, the Company entered into a consultancy and advisory agreement ("Consultancy Agreement") with Financière Pinault, whereby Financière Pinault agreed to provide certain advice and consultancy services, including providing on-site Financière Pinault executives from time to time, to the Company and any of its subsidiaries. In consideration for providing the services, the Company agreed to pay Financière Pinault a fee based on a formula set out in the Consultancy Agreement, payable no later than 30 December each calendar year. The Consultancy Agreement is governed by French law.

The Consultancy Agreement excludes Financière Pinault's liability for the execution and implementation of the services provided by Financière Pinault pursuant to the Consultancy Agreement. It has been agreed that execution of services by Financière Pinault shall be separate from Financière Pinault's role and functions as shareholder of the Company.

The Consultancy Agreement shall be automatically renewed for one year each year on 1 January, unless terminated by either party giving the other party notice to terminate the Consultancy Agreement at least 30 days before the expiration of the renewal period.

19. Material Contracts

Save as disclosed below, there are no contracts which are or may be material which have been entered into by members of the Group otherwise than in the ordinary course of business (a) within the two years immediately preceding the date of this document and are or may be material to the Group or (b) which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

19.1 Placing Agreement

19.1.1 Pursuant to the placing agreement dated 20 July 2007 ("Placing Agreement"), which is conditional upon Admission taking place on or before 5.00 p.m. on 1 August 2007, KBC Peel Hunt has agreed to procure subscribers for the Placing Shares proposed to be issued by the Company at the Placing Price. In addition, Financière Pinault has agreed to subscribe for the Subscription Shares for the purpose of part repayment of the bridge loan provided by Financière Pinault for the acquisition of KX Re.

19.1.2 The Placing Agreement contains warranties and indemnities from the Company and warranties, subject to certain limits, from Financière Pinault and the Directors in favour of KBC Peel Hunt.

19.1.3 The Placing Agreement contains provisions which enable KBC Peel Hunt to terminate the Placing Agreement in certain circumstances prior to Admission, including circumstances where any warranties are found to be not materially true or accurate. Under the Placing Agreement, the Company has agreed to pay to KBC Peel Hunt certain fees and commissions.

19.1.4 Pursuant to the Placing Agreement the Company has appointed KBC Peel Hunt to act as its nominated adviser and broker for the purposes of the Placing. The agreement contains certain undertakings given by the Company in respect of compliance with applicable laws and regulations following Admission.

19.1.5 The Placing Agreement also contains restrictions on the ability of the Directors and Financière Pinault to sell their shares in the Company for a period of two years and certain limited restrictions on Financière Pinault's ability to increase its shareholding by more than five per cent. in any calendar year.

19.2 Relationship Deed

19.2.1 On 20 July 2007, the Company has entered into a relationship deed ("Relationship Deed") with Financière Pinault.

19.2.2 Pursuant to the Relationship Deed, Financière Pinault have provided certain covenants to the Company, the effect of which is to ensure that the Company is capable at all times of carrying on business independently of the Financière Pinault and that all transactions and relationships in the future between the Company and Financière Pinault are at arms' length and on a normal commercial basis. For example, Financière Pinault directors and members of any subsidiary undertaking in which Financière Pinault holds directly or indirectly 75 per cent. of the issued share capital or voting control, which includes any undertaking which is itself a 75 per cent. subsidiary of such subsidiary undertaking of Financière Pinault (jointly, the "Financière Pinault Group"), are required to abstain from voting on transactions between the Company or any member of Tawa Group and Financière Pinault or any member of the Financière Pinault Group, or on other proposals in which Financière Pinault, a Financière Pinault director or any member of Financière Pinault Group has any material interest or which otherwise present a conflict of interest between any member of Financière Pinault Group and a Tawa Group company. The Deed also provides that a majority of the Board must not be Financière Pinault Directors. Financière Pinault has the right pursuant to this Deed to appoint a third in number of the Board from time to time.

19.3 **Reorganisation Deed**

19.3.1 As part of a process to simplify the share structure of the Company in preparation for Admission, the Company, Tawa Associates, Financière Pinault and the Executive Directors entered into a master reorganisation deed on 28 June 2007 ("Reorganisation Deed").

19.3.2 Pursuant to the terms of the Reorganisation Deed and conditional upon Admission taking place on or before 8.00 a.m. on 1 August 2007 (or such later date as the parties to the Reorganisation Deed may in advance agree in writing):

(a) Financière Pinault has agreed to acquire certain Deferred Shares from each of Colin Bird, David Vaughan, Marvin Mohn and William McConnell such that following the sale and purchase of Deferred Shares and immediately prior to Admission, each of Messrs. Bird, Vaughan, Mohn and McConnell will each be the legal and beneficial holders of 110 Deferred Shares;

(b) the share capital of the Company will be reorganised by way of a repurchase by the Company pursuant to section 164 of the Act of certain of the Preferred Shares held by Financière Pinault, such that following the repurchase, Financière Pinault is the legal and beneficial owner of 8,000 Preferred Shares. The aggregate consideration for the repurchase is 10 pence and will be funded out of the proceeds of the unconditional allotment and issue by the Company to Financière Pinault of one additional Preferred Share;

(c) each of the Preferred Shares and Deferred Shares comprised in the authorised and/or issued share capital of the Company immediately prior to Admission will be consolidated and subdivided into and reclassified as an Ordinary Share; and

(d) £79,990,000 Ordinary Shares will be issued by way of a capitalisation of part of the sum standing to the credit of the Company's capital redemption reserve arising from the repurchase of Preferred Shares, credited as fully paid up, in the proportion of 7,999 new Ordinary Shares for each Preferred Share (other than the Preferred Shares that are repurchased by the Company referred to in paragraph 19.3.2(b), above) and Deferred Share held immediately before the consolidation and subdivision referred to above.

19.3.3 The relevant shareholders' resolutions required to effect the reorganisation of the Company's share capital set out above were passed on 28 June 2007 and are summarised in paragraph 3.14 of this Part VII.

19.4 **Facilities Agreement**

19.4.1 On 3 May 2007, KX Re Holdings entered into a facilities agreement ("Facilities Agreement") with IXIS Bank acting as mandated lead arranger, agent and security trustee for and on behalf of the original lenders as described under the Facilities Agreement, pursuant to which the IXIS Bank has agreed to provide KX Re with the following facilities:

(a) US$35,000,000 term loan facility to be used for the purpose of financing part of the consideration payable by KX Re Holdings for the acquisition of KX Re and subsequent settlement of the costs and expenses incurred by KX Re Holdings in connection with the acquisition ("Term Loan"). The Term Loan was drawn down in full on 4 May 2007 and the full repayment is due on 4 May 2011. KX Re Holdings may prepay the whole or part of the amount; and

(b) US$5,000,000 revolving loan facility to be used for the purpose of working capital but not for the purpose of acquisitions or capital expenditure ("Revolving Facility").

The Revolving Facility can be drawn down at any time during the period from 4 May 2007 to 4 May 2009 ("Availability Period"). The final maturity date prescribed by the Facilities

Agreement is on 31 March 2011. Each advance is to be repaid on the last day of the interest period relating thereto, such interest period being 3 months ending on 31 March, 30 June, 30 September and 31 December or such other period as all lenders may agree. During the Availability Period amounts repaid may be re-borrowed.

The Revolving Facility shall not be utilised until the Term Loan has been utilised.

19.4.2 The margin pursuant to the Facilities Agreement is 2 per cent. per annum for the Term Loan and 4.9 per cent. per annum for the Revolving Facility. Interest in respect to these facilities is payable at the end of each interest period and will accrue at a rate equal to the aggregate of: (a) the margin; (b) 3 month LIBOR; and (c) mandatory costs (if any). In addition, a commitment fee of 1 per cent. per annum will accrue on the undrawn uncancelled amount of the Revolving Facility for the period from and including 3 May 2007 to the earlier of (a) the last date of the Availability Period relating thereto and (b) the date the Revolving Facility is cancelled in full.

19.4.3 The Facilities Agreement provides that in the event of flotation of either KX Re Holdings, KX Re or its subsidiaries that results in a change of control, which means that Financière Pinault ceases to own directly or indirectly 25 per cent. of the voting shares of KX Re Holdings or be represented on the Board, the facilities under the Facilities Agreement will be cancelled and all outstanding sums, including accrued interest, will become immediately due and payable. In addition it would constitute an event of default under the Facilities Agreement if at any time after 4 May 2007, KX Re Holdings ceases to be a wholly-owned subsidiary of the Company or if KX Re ceases to be a wholly-owned subsidiary of KX Re Holdings.

19.4.4 The Facilities Agreement imposes a number of restrictions on KX Re Holdings, KX Re and its subsidiaries with respect to certain transactions, including entering into any amalgamation, demerger, merger, consolidation or corporate reconstruction other than as permitted under the Facilities Agreement. There is a further restriction on KX Re Holdings to ensure that KX Re does not without the prior written consent of majority lender purchase any insurance or reinsurance policy portfolio from any party or transfer any existing insurance or reinsurance policy portfolio to any party, other than additional run-off liabilities either pursuant to reinsurance transactions or pursuant to the business transfer procedure set out in Part VII of FSMA.

19.4.5 The Facilities Agreement further imposes that where KX Re is contemplating entering into a commutation whereunder it is commuting with one or more policyholders or cedants on its inwards side and where (i) the reserves which it is carrying in its books for the risks which are to be commuted thereunder are equivalent to at least $5,000,000 and (ii) the payment envisaged to be made thereunder exceeds those reserves by not less than 25 per cent., KX Re Holdings Limited shall use its best endeavours to give the Bank reasonable prior notice and to give the Bank an opportunity to consult with KX Re Holdings Limited in respect thereof prior to KX Re entering into the commutation.

19.5 **KX RE Share Purchase Agreement**

19.5.1 On 3 March 2007, the Company and the Continental entered into a share purchase agreement (the "KX Re SPA") for the sale and purchase of the entire issued share capital of KX Re (previously named Continental Management Services Limited).

19.5.2 Pursuant to the KX Re SPA, the parties terminated all existing inter-company relationships between Continental and KX RE. Completion of the sale was subject to a number of conditions, all of which were fulfilled and the acquisition was completed on 4 May 2007.

19.5.3 The purchase price paid on completion was $64.3 million. The purchase price is subject to adjustment, up or down, by reference to the tax losses which were agreed with HM Revenue & Customs to be available for carry-forward in KX Re at completion, for offset against post-completion general insurance trade profits. In addition, an increase in the purchase price is payable in respect of certain non-trading tax reliefs (if any) which were carried forward in KX Re at completion and were actually utilised, by offset against post-completion non-trading profits, so as to reduce the corporation tax liability of KX Re. The effect of any such adjustments is to share the value of the tax losses and reliefs between the Company and Continental.

19.5.4 Continental provided the Company with a suite of warranties covering, amongst other things: the shares, key information, the 2005 accounts, changes since the 2005 accounts, reserves records (no warranty was given as to the adequacy of the reserves), debtors records, regulatory returns, IT and IP, property, contracts, employees, pensions, compliance with law and tax. On a breach of warranty, Continental is liable for any increase in KX Re's liabilities or reduction in the value of its assets, subject to a number of limitations. In particular, the KX Re SPA contains time limits in which the Company must give Continental notice of any claim. As such, the claim under the Tax Deed must be made before 31 March 2014 and in respect of the SPA any claim must be made before 30 April 2009.

19.5.5 In addition, Continental has provided the Company with specific indemnities in relation to the accuracy of key information the Company is relying upon, and in relation to a range of other matters identified by the Company during the due diligence process.

19.5.6 Continental's maximum liability under the KX Re SPA and the Tax Deed is equal to 100% of the consideration paid by the Company. Continental is not liable for a breach of the KX Re SPA (other than in respect of tax, pensions or other specifically agreed obligations) unless the amount payable in respect of that claim and all other claims exceeds $1 million, in which case Continental is only liable for the excess.

19.5.7 Under the KX Re SPA, the Company has agreed to use its best endeavours to implement a scheme of arrangement pursuant to section 425 of the Companies Act (the "Scheme") within three years of completion that includes within its scope all insurance and reinsurance obligations of KX Re that are subject to three guarantees entered into by Continental with the Institute of London Underwriters ("ILU") in respect of various obligations of KX Re principally to insureds and reinsureds under its marine book, save that the board of directors of KX Re may resolve not to instigate the Scheme if they consider that it is not in the best interest of KX Re or for any other lawful reason. Until the earliest of: (i) the Scheme being implemented; (ii) Continental being released from its obligations under the ILU guarantees; and (iii) the Company providing a guarantee, indemnity, letter of credit or trust fund in respect of Continental's obligations under the ILU guarantees (the "Release Date"), the Company has agreed not to dispose of a controlling interest in KX Re and to procure that KX Re does not implement any other scheme of arrangement, insurance business transfer scheme (in relation to all or substantially all of its business) pursuant to Part VII of FSMA or dispose of all or a substantial proportion of its assets. However, this last restriction does not preclude KX Re carrying out commutations as long as the ratio of net undiscounted reserves commuted since completion to net undiscounted reserves at completion with respect to the relevant ILU guaranteed obligations (the "Commuted Ratio") is at least 80% of the Commuted Ratio with respect to the remainder of the book, as determined on specified dates.

19.5.8 In addition, the Company has agreed that, until the Release Date, KX Re shall not pay more than £2 million per calendar year or more than £10 million in total, in respect of services provided by the Company or its subsidiaries to KX Re. These limits are subject to upwards adjustment: the £10 million limit is increased by increases in KX Re's audited undiscounted surplus after completion and both the £2 million and the £10 million limits are increased if KX Re acquires any additional net assets.

19.5.9 The Company has also agreed to procure that KX Re uses its reasonable endeavours to enter into a final commutation of certain insurance and reinsurance obligations between KX Re and Allstate Insurance Company and Allstate Insurance Company of Canada, as identified in an agreement between those companies and the Continental Insurance Company (the "Allstate Agreement"). Until such a final commutation is entered into: (i) the Company has agreed to procure that KX Re: (a) complies with the obligations under the Allstate Agreement to provide letters of credit; (b) does not amend any material provision of the Allstate Agreement; and (c) provides annual reports of its compliance to Continental. In addition, the Company and Continental have provided each other with cross indemnities in the event that Allstate implements a set-off against amounts due from the Company or Continental which results in Continental or the Company not receiving an amount from Allstate that it otherwise would have.

19.5.10 As permitted by the KX Re SPA, on 4 May 2007, the Company novated the KX Re SPA and the Tax Deed in favour of KX Re Holdings Limited, a wholly-owned subsidiary of the Company, incorporated in England and Wales. The novation did not release the Company from its obligations under the KX Re SPA or the Tax Deed (although it is provided that the Company is not liable in relation to any such obligation which is duly fulfilled by KX Re Holdings).

19.6 **Continuing Letter of Credit Agreement Standby Secured**

19.6.1 On 9 November 2006, CX Re entered into a continuing letter of credit agreement with State Street Bank and Trust Company ("State Street Bank") regarding the issuance of letters of credit by the State Street Bank at its discretion from time to time for the benefit of CX Re ("LOC Agreement"). The LOC Agreement remains in effect until receipt by the State Street Bank of a written notice from CX Re of its cancellation and is binding on CX Re's successors, assigns, executors and legal representatives.

19.6.2 CX Re agreed to pay *inter alia*: (a) the amount required to pay for each draft, acceptance, instrument, advice or other demand for payment under a credit in immediately available funds; and (b) on demand, the fees and commissions relating to each credit at such rate as the State Street Bank may from time to time establish, interest payable at the rate of 4 per cent. per annum above the prime rate of the State Street Bank in effect from time to time and all costs and expenses incurred by the State Street Bank in connection with the credits.

19.6.3 As a security for the obligations of CX Re to the State Street Bank under the LOC Agreement or any other agreement executed in connection with any credits issued under the LOC Agreement, CX Re agreed to grant to the Bank a security interest in: (a) the collateral from time to time referred to in the separate Pledge Agreement (as defined below); (b) all collateral or guarantees held by the beneficiary of any credit as security for the obligations of CX Re to such beneficiary; (c) all documents accompanying or related to the drafts; (d) any property of CX Re in which it has an interest coming into the State Street Bank's possession or the possession of anyone acting for the State Street Bank; and (e) all proceeds of the foregoing.

19.6.4 CX Re agreed to indemnify the State Street Bank and hold it harmless from any loss, cost (including legal costs and reasonable attorney's fees) or damage suffered as a result of any breach by CX Re of the terms of the LOC Agreement, any obligations and responsibilities imposed by foreign laws and customs for which CX Re is obliged to provide an indemnity under UCP500 and/or ISP 98 or State Street Bank's dishonour of a draft or demand at CX Re's request or pursuant to an injunction.

19.6.5 All of the obligations (unless the State Street Bank otherwise elects) become immediately due and payable without demand, presentment or notice if there is a material or significant change of ownership, management or control of CX Re.

19.7 **Pledge and Security Agreement and Assignment of Account**

19.7.1 On 9 November 2006, CX Re entered into a pledge and security agreement and assignment of account ("Pledge Agreement") with State Street Bank, whereby, in order to secure its payment and performance obligations as maker and endorser of all notes held by the State Street Bank pursuant to the LOC Agreement, CX Re agreed to pledge and grant to the State Street Bank a continuing security interest in all securities, stocks, bonds and other instrument property and financial assets of CX Re specifically reflected in accounts maintained with the State Street Bank.

19.7.2 The Pledge Agreement will terminate when all respective obligations of CX Re and the State Street Bank thereunder have been fully paid and performed and all outstanding letters of credit have been cancelled or have expired.

19.8 **CX Re Settlement and Release Agreement**

19.8.1 In March 2004, the Company had become aware of a claim under the CX Re SPA as a result of a claim by Groupama Insurance Company Limited ("Groupama"). In June 2004, the Company had become aware of another claim under the CX Re SPA in connection with a reinsurance agreement with Swiss Reinsurance Company Limited ("Swiss Re"), and in connection with a reinsurance agreement between CX Re and CCC.

19.8.2 On 15 February 2005, the Company and CCC entered into a settlement and release agreement ("CX Re Settlement Agreement"), whereby parties agreed that CCC would pay the Company \$2,200,000 in respect of the Swiss Re claim and £2,000,000 in respect of the Groupama claim. Following these payments, CCC and the Company each released and discharged each other from any and all liabilities and obligations arising specifically from these claims relating to Groupama, Swiss Re and CCC. No other rights of the Company under the CX Re SPA were removed pursuant to the CX Re Settlement Agreement.

19.9 **CX RE Share Purchase Agreement**

19.9.1 On 15 July 2002, the Company and CCC entered into a share purchase agreement (as subsequently amended) (the "CX Re SPA") for the sale and purchase of the entire issued share capital of CX Management Company Limited ("CXM") (previously named CNA Re Management Company Limited) which was the owner of the entire issued share capital of CX Re (previously named CNA Reinsurance Company Limited).

19.9.2 The purchase price for CXM was \$1.00, subject to a completion adjustment which was agreed in early 2003. The completion adjustment comprised several elements, including: (i) an adjustment based on CX Re's investment income between 31 December 2001 and the completion date; (ii) a matched portfolio adjustment; (iii) a mark to market and realised investment gain/loss adjustment; and (iv) a foreign exchange adjustment. In addition, under the associated tax deed between the Company and CCC dated 31 October 2002 ("Tax Deed"), the parties agreed that if the total of available losses in CX Re exceeded \$235 million then CCC was entitled to share in the benefit of any of the excess losses that were used to save taxation. This tax loss related adjustment and each of the adjustments in (ii), (iii) and (iv) above comprised the "Completion Balance".

19.9.3 As a result of the investment income adjustment: (a) the Company subscribed \$20.81 million for ordinary shares in CXM (and CXM subscribed the same amount for ordinary shares in CX Re); and (b) the Company paid CCC \$4.19 million. As a result of the foreign exchange adjustment, CCC subscribed \$11.329 million for one ordinary share in CXM (and CXM subscribed the same amount for one ordinary share in CX Re) and transferred that share to the Company for \$1.00. As a result of the other adjustments, the initial Completion Balance was calculated at \$5.1 million as at completion, resulting in a payment due from the Company to CCC. Under the terms of the CX Re SPA an obligation to pay the Completion Balance was only triggered when CX Re made a distribution or paid a management fee, so that the Company was obliged to pay to CCC: (i) an amount equal to 50 per cent. of the management fee paid to Tawa Management; and (ii) an amount equal to 80 per cent. of the distributions made by CX Re, up to an aggregate amount equal to the Completion Balance. In addition, if the Company disposed of CX Re the whole of the Completion Balance would become payable immediately.

19.9.4 The initial Completion Balance referred to above was settled by the Company by payments to CCC in 2003 and 2004 calculated by reference to 50 per cent. of the management fees paid by CX Re to Tawa Management. The final payment of the Completion Balance was made on 12 December 2004. The only element of the Completion Balance which could arise after that date was in relation to the tax losses.

19.9.5 To secure the Company's obligations to settle the Completion Balance from time to time, the Company was required to execute a security interest over the shares in CXM (and, subsequently, CX Re) and procured that Tawa Management executed the security interest over the rights it has to payment of the management fee.

19.9.6 CCC provided the Company with a suite of warranties. The time limit for claims under the CX Re SPA has now expired. Claims can still be made under the Tax Deed provided they are made before 31 January 2009.

19.9.7 CCC's maximum liability under the CX Re SPA and the Tax Deed is $100 million (not including any claim in respect of the non-availability of the agreed tax losses).

19.10 **Group Relief Agreements dated 20 March 2006 between Christies International plc, CX Re and Financière Pinault**

19.10.1 CX Re, Christies International plc ("Christies International") and Financière Pinault entered into two tax group relief agreements both dated 20 March 2006 ("Pre-reorganization Group Relief Agreements"), pursuant to which CX Re agreed to surrender up to £55 million of its tax losses for the 2005 financial year and up to £13.75 million for the financial period ending on 20 March 2006 respectively to Christies International and its group of companies.

19.10.2 Pursuant to the Pre-reorganization Group Relief Agreements the consideration for the tax losses is to be paid into an escrow account established in the name of CX Re when either CX Re or the claimant Christies International group company notifies the other party that they have filed their tax returns for 2005 or 2006, as the case may be, which include consent to surrendering the losses or claiming group relief in respect of the acquired losses respectively or at the latest before 7 January 2007. To ensure the security of the above payments to the Company, CX Re and JP Morgan Chase Bank ("JP Morgan") entered into a trust deed dated 22 December 2006 pursuant to which JP Morgan was appointed as a trustee to hold amounts paid pursuant to the Pre-reorganisation Group Relief Agreements on trust. The amounts held in escrow will be released to CX Re upon final determination by HM Revenue & Customs of allowable losses for group relief. The consideration will be adjusted to reflect such final determination or any prior agreed amendment to the relevant tax returns.

19.11 **Group Relief Agreement dated 17 February 2006 between Christies Fine Art Security Services Limited, Christies Assets Limited, Tawa UK Limited and Financière Pinault**

19.11.1 The Company, Christies Fine Art Security Services Limited, Christies Assets Limited and Financière Pinault entered into a tax group relief agreement dated 17 February 2006 ("2004 Group Relief Agreement"), pursuant to which the Company agreed to surrender an amount of £144,985 in tax losses to Christies Fine Art Security Services Limited and an amount of £144,985 in tax losses to Christies Assets Limited for the 2004 financial year.

19.11.2 Pursuant to the 2004 Group Relief Agreement the consideration for the tax losses is to be paid not later than seven days after the date on which the Company notifies the claimant company that it has submitted its 2004 tax return, containing its consent to the surrender of the losses. The consideration will be adjusted to reflect any final determination of allowable losses made by the HM Revenue & Customs or any prior agreed amendment to the relevant tax return.

19.12 **The agreements summarised in paragraph 21 of this Part VII**

20. Management and Services Agreements and Trust Funds

20.1 KX Re Services Agreement

20.1.1 On 8 May 2007, KX Re entered into a services agreement (“KX Re Services Agreement”) with Tawa Management, pursuant to the terms of which, KX Re appointed Tawa Management to provide management services in respect of the run-off of the business. The Services Agreement prevents the Tawa Management from conducting any activities which require FSA authorisation and for which FSA authorisation has not been obtained. KX RE agreed to indemnify Tawa Management against any liability which Tawa Management may reasonably incur as a result of acting as the KX Re’s manager.

20.1.2 The KX Re Services Agreement may be terminated by at least 12 months’ prior written notice given by either party to expire on 31 March of any year. KX Re may terminate the KX Re Services Agreement immediately if Tawa Management does not obtain FSA authorization within 3 months of the KX Re Services Agreement becoming effective, or if having obtained FSA authorization, Tawa Management ceases to be authorised. The KX Re Services Agreement may also be terminated by either party in the event of a material breach which is incapable of remedy or if either party enters into liquidation, or has an administrative receiver or administrator appointed. KX Re may terminate the KX Re Services Agreement if the Tawa Management becomes insolvent, suspends payment of its debts, enters into an arrangement with its creditors, convenes a meeting of its creditors or threatens to cease carrying on its business (except where Tawa Management becomes insolvent as a result of the failure of KX Re to meet its obligations to Tawa Management in full).

20.1.3 Up to the Release Date (as specified in the KX Re SPA summarised in paragraph 19.5 of this Part VII) remuneration payable to Tawa Management shall not exceed £2,000,000 per annum and £10,000,000 in total. However, these figures are subject to increase dependant upon any surplus in KX Re’s accounts. In addition, KX Re shall reimburse the Manager’s costs and expenses in accordance with the KX Re Services Agreement and shall pay an annual fee of $500,000 to Tawa Management. KX Re shall also reimburse Tawa Management on a time and materials basis at its current rates (which are subject to variation from time to time) for work carried out by Tawa Management which falls outside the scope of the KX Re Services Agreement.

20.2 KX Re Investment Manager Agreement

20.2.1 On 4 May 2007, KX Re entered into an investment manager agreement (“KX Re Investment Manager Agreement”) with BlackRock Financial Management, Inc (“BlackRock”) pursuant to which BlackRock agreed to provide discretionary investment management services to KX Re.

20.2.2 Pursuant to the KX Re Investment Manager Agreement, BlackRock is responsible for investment and reinvestment of the assets designated by KX Re as subject to BlackRock’s management. The designated portfolio is to be managed according to, among others, KX Re’s investment policies and guidelines and yet to be agreed portfolio-specific investment guidelines. Upon agreement, BlackRock may also provide to KX Re a range of additional investment services relating to certain operating, analytical and reporting support as well as accounting and reporting services relating to the managed portfolio. BlackRock receives a sliding scale annual fee based on the value of the managed portfolio and, at KX Re’s sole discretion, an annual performance bonus for additional services and overall support efforts.

20.2.3 KX Re may remove BlackRock or BlackRock may resign as investment manager under the KX Re Investment Manager Agreement upon 30 days' prior written notice.

20.3 Pre-Admission Intragroup Cash Management Agreement

20.3.1 On 22 May 2003 Tawa, Tawa Associates, Tawa Management, Financière Pinault and various other members of the Groupe Artémis entered into a cash management agreement ("Pre-Admission Intragroup Cash Management Agreement") effective from 1 January 2003, under which the parties agreed to make use of the possibility of conducting cash management transactions among themselves, including current accounts, loans, borrowings, investments, interests rate and foreign exchange hedges, guarantees and securities.

20.3.2 All transactions are to be managed by Artémis. Pursuant to the agreement a creditor subsidiary agrees to communicate to Artémis the amount of its available cash and to specify the amount which exceeds its current operating needs and a borrowing company commits to communicate to Artémis its forecasts of cash requirement.

20.3.3 Loans and investments must be recorded in written contracts referring to the Pre-Admission Intragroup Cash Management Agreement and also indicating the purpose of the movement, maturity date, terms of repayments and conditions of anticipated payments.

20.3.4 Effective on Admission, the Pre-Admission Intragroup Cash Management Agreement will be revoked.

20.4 CX Re Investment Manager Agreement

20.4.1 On 8 January 2003, CX Re entered into an investment manager and risk management services agreement ("CX Re Investment Manager Agreement") with BlackRock pursuant to which BlackRock agreed to provide investment management and risk management services.

20.4.2 Pursuant to the CX Re Investment Manager Agreement, BlackRock is responsible for investment and reinvestment of the assets designated by CX Re as subject to BlackRock's management. The CX Re Investment Manager Agreement provides that BlackRock is initially to manage the following asset portfolios: US Trust Portfolio, Surplus Lines Trust Portfolio, US Non-Trust Portfolio and Canadian Portfolio, although, it is envisaged that BlackRock may be directed to manage additional CX Re asset portfolios. The investments are managed according to, among other things, CX Re's investment policies and guidelines and the Account's Investment Guidelines attached to the CX Re Investment Manager Agreement. In respect of risk management services, BlackRock has agreed to provide CX Re on a monthly basis with a suite of portfolio and risk management reports for CX Re's portfolios.

20.4.3 The CX Re Investment Manager Agreement terminates upon either party giving 30 days' prior written notice of intent to terminate the CX Re Investment Manager Agreement to the other party.

20.5 Accounting Services Agreements

20.5.1 Each of CX Re and KX Re have entered into certain accounting services agreements with BlackRock, on 26 September 2005 and 4 May 2007 respectively ("Accounting Services Agreements"), pursuant to which BlackRock agreed to provide additional investment accounting and reporting services.

20.5.2 Under the Accounting Services Agreements, the parties agree the daily and monthly procedures to be followed in respect of CX Re's and KX Re's investment portfolio, as the case may be, including for purposes of National Association of Insurance Commissioners/Securities Valuation Office filings; income, payment and corporate action processing; pricing; and asset reconciliation. BlackRock agrees also to provide to CX Re and

KX Re, as the case may be, monthly standard reports on the investment portfolios in accordance with IFRS. Pursuant to the Accounting Services Agreements, BlackRock receives a sliding scale annual fee based on the value of the aggregate CX Re and KX Re portfolios, with a minimum annual fee of $150,000 and additional charges for each legal entity and portfolio.

20.5.3 The initial term of each Accounting Services Agreement is 36 months commencing on its date. Thereafter, each Accounting Service Agreement renews for 12-month terms unless either party provides written notice to the other party of its desire not to renew at least 60 days in advance of the expiration of the then-current term. Before expiration, each relevant party may terminate an Accounting Service Agreement in case of material breach by the other party that remains uncured for 30 days.

20.6 **CX Re Run-off Management Agreement**

20.6.1 On 31 October 2002, Tawa Management entered into a run-off management agreement with CX Re (as amended) ("CX Re Run-Off Management Agreement"), whereby Tawa Management agreed to provide CX Re with a wide range of services designed to assist with CX Re's operations as a run-off company.

20.6.2 Pursuant to the CX Re Run-Off Management Agreement, Tawa Management received an annual fee of $5 million per year for the first 3 years of its services. The management fee in 2006 was $5 million. During 2007 and 2008 calendar year, Tawa Management is entitled to a fee consisting of: (a) a fixed amount of $4 million per annum; and (b) a value added amount comprising 10% of the amount (if any) by which the shareholders' funds as at 31 December 2008 exceed the amount of the shareholders' funds as at 31 December 2006. The annual fee payable thereafter is to be agreed.

20.6.3 The CX Re Run-Off Management Agreement may be terminated by either party immediately by giving the notice to another if the other party is in material breach of the CX Re Run-Off Management Agreement or is insolvent or has entered into liquidation of has a receiver or administrative receiver or administrator appointed. The CX Re Run-Off Management Agreement can also be terminated by either party on at least 12 months prior written notice to expire on 31 December of any year, but such notice cannot be given prior to 31 March 2010.

20.6.4 Tawa Management is currently seeking authorisation by the FSA as an insurance intermediary under Part IV of FSMA. Once Tawa Management becomes authorised, it will no longer be CX Re's appointed representative and the CX Re Run-Off Management Agreement will need to be amended to reflect this.

20.7 **CX Re US Surplus Lines Trust**

20.7.1 CX Re entered into a Trust Agreement for Alien Excess or Surplus Lines Insurers (the "Surplus Lines Trust") on 11 May 1999, with The Chase Manhattan Bank ("Trustee"). The trust is governed by National Association of Insurance Commissioners (NAIC) and the Domiciliary Commissioner, the New York Superintendent of Insurance.

20.7.2 At the time, CX Re was seeking approval as an excess and surplus lines insurer in various US states, and seeking listing on the NAIC's International Insurers Department ("IID") Quarterly List of Alien Insurers ("IID List"). In order to appear on the IID List, an insurer must establish a trust fund in the US as security for its US surplus lines policyholders.

20.7.3 The Surplus Lines Trust must be funded with $5.4 million plus 30 per cent. of either: CX Re's US gross surplus lines liabilities; or CX Re's direct non-admitted US liabilities excluding aviation, wet marine and transportation insurance, and direct procurement placements, in either case for business written after 1 January 1998. The Surplus Lines Trust is also subject to a cap of $60 million. The liabilities must be reported annually no later than

31 July to the Trustee, the Domiciliary Commissioner, the IID, and all insurance commissioners in other states where CX Re maintains surplus lines approval.

20.7.4 The Surplus Lines Trust is irrevocable and may only be terminated on either five years' written notice to the Trustee, or 60 days' notice by CX Re to the Trustee that it has entered into an assumption and assignment agreement transferring all liabilities to an insurer licensed in all the states where CX Re has surplus lines policies in force, or to an insurer appearing on the IID List.

20.8 **CX Re US Reinsurance Trust Deed**

20.8.1 On 1 January 1994, CX Re and The Chase Manhattan Bank entered into a Deed of Trust ("Reinsurance Trust") for the benefit of CX Re's US ceding insurers.

20.8.2 This Reinsurance Trust was subsequently amended effective 5 August 1997, and 26 November 1998, 6 January 2000, and 7 August 2003. The final amendment substituted State Street Bank for The Chase Manhattan Bank as trustee ("the Trustee"). The Reinsurance Trust is governed primarily by the domiciliary insurance commissioner in the state where the trust is located, in this case New York.

20.8.3 In the US, ceding insurers only receive credit on their statutory financial statements for reinsurance from licensed or accredited reinsurers, or those who have put up collateral in the amount of the reinsurance. In order to qualify as an accredited reinsurer in the US, CX Re was required to establish and maintain in the United States a trust fund for the security of United States ceding insurers in accordance with applicable insurance statutes and regulations under reinsurance agreements issued by CX Re.

20.8.4 The Reinsurance Trust is subject to a minimum amount of $20 million plus CX Re's gross liabilities attributable to reinsurance assumed from US domiciled ceding insurers which are not otherwise secured by acceptable means. The gross liabilities are calculated quarterly and reported to the trustee, the domiciliary commissioner, and all other insurance commissioners in states where CX Re is an accredited reinsurer. Gross liabilities in this case include losses and allocated loss expenses, reserves for losses reported and outstanding, reserves for losses incurred but not reported, reserves for allocated loss expenses, and unearned premiums.

20.8.5 The Reinsurance Trust is irrevocable and may only be terminated under one of the following circumstances:

(a) Five years' notice is given to the Trustee, the New York Superintendent of Insurance, and the insurance commissioners of all other states where CX Re is accredited for reinsurance; an independent auditor's report confirms that CX re no longer has any US liabilities (as defined in the preceding paragraph); the New York Superintendent of Insurance gives written approval; and no other insurance commissioner in a state where CX re is an accredited reinsurer objects to the termination of the Reinsurance Trust.

(b) On 60 days' notice to the Trustee, the New York Superintendent of Insurance, and all other insurance commissioners where CX Re is an accredited reinsurer, if CX Re becomes a licensed insurer in all states where it has US cedants, or has transferred all of its US liabilities to an insurer licensed in all such states.

20.8.6 If CX Re ceases to be recognized as an accredited reinsurer, then the Reinsurance Trust 60 days after notice from the New York Superintendent of Insurance to the Trustee and all other insurance commissioners in states where CX Re is accredited for reinsurance, to the effect that all claims that were the subject of the trust have been settled by payment, commutation agreements, or assumption agreements with licensed or accredited reinsurers.

21. CX Re Reorganisation

On 21 March 2006, the Company and CX Re entered into the following documents with certain other parties to the following effect:

21.1 CX Re's share capital was restructured. New articles of association were adopted and the issued ordinary shares of £1.00 each in the capital of CX Re were consolidated and sub-divided into 343,920,000 "A" Shares and 4,280 "B" Shares. The unissued ordinary shares of £1.00 each in the capital of CX Re were consolidated and sub-divided into 56,075,720 "A" Shares.

21.2 The CX Re "A" shares have no voting rights but have entitlement to all of the economic rights and represent almost 100 per cent. of CX Re's total nominal share capital. The "B" shares have 100 per cent. of the voting rights, none of the economic rights and represent less than 0.01 per cent. of the total nominal share capital.

21.3 The Company and two financial institutions entered into an agreement for the sale and purchase of shares in CX Re dated 21 March 2006, pursuant to which the Company sold the first financial institution 158,824,368 "A" Shares and 855 "B" Shares and the second financial institution 141,595,311 "A" Shares and 855 "B" Shares. The shares were sold to include a combination of "A" and "B" shares so that:

21.3.1 the Company would retain 12.65 per cent. of the economic rights to CX Re and 49.95 per cent. of the voting rights;

21.3.2 the first financial institution would acquire 46.18 per cent. of the economic rights and 19.98 per cent. of the voting rights.

21.3.3 the second financial institution would acquire 41.17 per cent. of the economic rights and 19.98 per cent. of the voting rights; and

21.3.4 two additional purchasers, Paul Jardine and Philip Marcell, each acquired 216 "B" Shares in CX Re, each being 5.045 per cent. of the "B" shares.

21.4 The initial consideration for the shares was $1.00 per purchaser, together with an deferred consideration equal to the purchaser's share of 100 per cent. of the amount of distributions made by CX Re up to $171m and thereafter equal to 95 per cent. of the distributions made by CX Re.

21.5 CX Re, the Company, the two financial institutions and CCC entered into a tax agreement dated 21 March 2006 ("Tax Agreement"), pursuant to which CX Re agreed to surrender part of its tax losses to each of the two financial institutions for the consideration stated in the agreement. In broad terms, the consideration for the tax losses is paid on the quarterly payment dates when the corporate tax saved by the two financial institutions would otherwise fall due, namely 14 July 2006, 14 October 2006, 14 January 2007, 14 April 2007.

21.6 CX Re, the Company and CCC also entered into an incentive agreement dated 21 March 2006 ("Incentive Agreement"), under which CX Re is required to pay: (i) an incentive payment to the Company in consideration for the Company agreeing to enter into and complete the sale of the shares in CX Re to the two financial institutions; and (ii) an incentive payment to CCC in consideration for CCC agreeing to release its security over the shares in CX Re.

21.7 To ensure the security of all payments, CX Re, the Company, the two financial institutions, CCC and JPMorgan Chase Bank ("JPM") entered into a trust deed dated 26 March 2006 ("Trust Deed"), pursuant to which JPM was appointed as trustee to hold amounts paid to it pursuant to the Tax Agreement on trust and subject to the terms of the Trust Deed.

21.8 Pursuant to the Tax Agreement all payments for the tax losses are to be paid into the trust account established pursuant to the Trust Deed. When a claim for consortium relief succeeds, the associated amount in escrow will be split three ways: (i) a proportion will transferred to CX Re; (ii) a proportion will be transferred to CCC (to fulfill CX Re's incentive payment obligation to it under the Incentive Agreement); and (iii) a proportion will be rolled up and on an agreed trigger date (following the final determination of all claims for consortium relief) it will be transferred to the Company (to fulfill CX Re's incentive payment obligation to it also under the Incentive Agreement).

21.9 The Company, the two financial institutions, Paul Jardine, Philip Marcell and CX Re entered into a shareholders agreement dated 26 March 2006 ("Shareholders Agreement") for CX Re to further regulate their rights as shareholders in CX Re.

21.10 Under Shareholders Agreement, each of the shareholders in CX Re agrees to exercise its respective rights as to ensure that: (i) CX Re performs and complies with all obligations on its part under the Shareholders Agreement, the Tax Agreement and other material agreements, and complies with the restrictions imposed upon it under the CX Re Articles of Association ("CX Re Articles"); (ii) CX Re implements and ultimately fulfils the scheme of operations; (iii) the business of CX Re is conducted in the best interests of the shareholders as a whole and with the intention of creating and extracting the greatest value possible for the shareholders; (iv) the business of CX Re is confined to the run-off of claims, rights and obligations under insurance contracts, reinsurance contracts and retrocession contracts entered into by CX Re ("Business"); (v) the Business is conducted in accordance with and so as best to implement the scheme of operations and the business plan approved by the directors of CX Re from time to time; and (vi) subject to various agreed requirements, CX Re will distribute all profits lawfully available for distribution subject to the appropriation of such reasonable and proper reserves for working capital or otherwise as the directors may think appropriate.

21.11 The Company entered into a supplemental deed of charge dated 26 March 2006 in favour of CCC, pursuant to which the existing charge over shares (so far as not released) is extended to secure the Company's obligations to CCC under the Tax Agreement, the Incentive Agreement and the Trust Deed and the charge is stated to charge the "A" and "B" Shares held by the Company in CX Re; and

21.12 Under the CX Re Articles, the Company, as long as it is a member holding at least 45 per cent. of the voting "B" Shares and holding more "B" Shares than any other member, has the right to appoint or remove a majority less one of the directors of CX Re, provided that a majority of the directors cannot be either appointed by or affiliated with the Company. In addition, the following matters require approval of at least 75 per cent. of the total number of directors (which would include at least one director appointed by the Company): (i) any changes to the scheme of operations not proposed by the run-off manager of CX Re; (ii) the issuance of any additional shares in CX Re; (iii) the surrender by CX Re of tax losses to other companies; and (iv) the termination of any run-off management agreement with an entity acting as the CX Re's run-off manager. Also, if any one member or any one member and parties acting in concert with that member own 65 per cent. or more in nominal value of the "B" Shares in CX Re, then any resolution for the reduction of capital of CX Re requires the approval of the holder or holders of not less than 85 per cent. in nominal value of the issued "B" Shares.

22. CREST

22.1 Application will be made to permit Ordinary Shares to be settled through CREST with effect from Admission. CREST is a paperless settlement procedure enabling title to securities to be evidenced otherwise than by a certificate and transferred other than by a written instrument. The Articles permit the holding of Ordinary Shares in uncertificated form in the CREST system. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain a share certificate will be entitled to do so.

22.2 Should Shareholders wish to hold Ordinary Shares in CREST, they will need to follow the requisite CREST procedures for the dematerialisation of their shareholding.

22.3 It is expected that definitive share certificates will be dispatched by first class post to those shareholders whose entitlements are to be dealt with outside CREST at the risk of the person entitled thereto by 9 August 2007 or as soon thereafter as is practicable and that the CREST accounts in respect of those shareholders who have requested that their entitlements be dealt with inside CREST will be credited on 26 July 2007.

23. General

23.1 The gross proceeds and net proceeds of the Placing to the Company are expected to be approximately £20.0 million and approximately £17.0 million respectively. The total costs and expenses relating to Admission and the Placing are payable by the Company and are estimated to amount to approximately 3.0 million (including VAT). Such expenses will include legal, financial advisory, consulting, placing commissions and accounting fees, travel, printing and other expenses.

23.2 The financial year end of the Company is 31 December of each year and the first audited financial statements of the Company after Admission will be prepared for the period ending 31 December 2007.

23.3 The financial information contained in this document which relates to the Company does not constitute statutory accounts as referred to in section 240 of the Act. The Company's auditors are Deloitte & Touche LLP whose registered office is at 1 Stonecutter Street, London EC4A 4TR. KPMG Audit Plc whose registered office is at 8 Salisbury Square, London EC4Y 8BB were the auditors of the Company until 13 July 2007. KPMG audited the statutory financial statement of the Company, without qualification, for the three financial years ended 31 December 2006 in accordance with generally accepted auditing standards in the United Kingdom and their audit report contained no statement under section 237(2) or (3) of the Act. Such statutory audited accounts have been delivered to the Registrar of Companies.

23.4 Other than as disclosed in paragraph 5 of Part II, there are no investments of the Group in progress which are or may be significant.

23.5 Save as disclosed in this document, no person (other than a professional adviser referred to in this document and trade suppliers) has:

23.5.1 received, directly or indirectly, from any member of the Group within 12 months preceding the application for Admission; or

23.5.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from any member of the Group on or after Admission, any of the following:

23.5.3 fees totalling £10,000 or more;

23.5.4 securities in the Company with a value of £10,000 or more, calculated by reference to the Placing Price; or

23.5.5 any other benefit with a value of £10,000 or more at the date of Admission.

23.6 With reference to 23.5 above, Colin Bird has received project fees of £133,929 between July 2006 and June 2007 in relation to projects including the Admission process.

23.7 The accounting reference date of the Company is 31 December.

23.8 The Placing Price represents a premium of 115 pence over the nominal value of Ordinary Shares of 10 pence each.

23.9 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 31 December 2006, the date to which the Accountants' Reports on the Group contained in Part IV of this document was made up.

23.10 Save as disclosed in this document, the Directors are unaware of any exceptional factors which have influenced the Company's activities.

23.11 The provisions of paragraphs 18, 19, 20 and 21 of this Part VII disclose related party transactions and summarise the nature and extent of those transactions which are material to the Company.

23.12 The Ordinary Shares have not been sold, nor are they available, in whole or in part, to the public in connection with the application for Admission.

Dated: 20 July 2007

DEFINITIONS

Throughout this document references to "insurance" shall be deemed to include reinsurance, reference to "insurers" shall be deemed to include reinsurers and reference to "insureds" shall be deemed to include reinsureds, save where the context otherwise requires.

The following definitions also apply throughout this document, unless the context requires otherwise:

"2006 Act"	the Companies Act 2006
"Act" or "Companies Act"	the Companies Act 1985, as amended
"Admission"	the admission of the Ordinary Shares, in issue and to be issued pursuant to the Placing and the Subscription, to trading on AIM becoming effective pursuant to the AIM Rules for Companies
"AIM"	AIM, a market operated by the London Stock Exchange
"AIM Rules for Companies"	the rules of the London Stock Exchange governing the admission to and the operation of AIM
"AIM Rules for Nominated Advisers"	the rules of the London Stock Exchange for nominated advisers
"Articles" or "Articles of Association"	the Articles of Association of the Company, a summary of which is set out in paragraph 4 of Part VII of this document
"Artémis" or "Groupe Artémis"	refers to the many companies, joint ventures and related bodies, including Financière Pinault, directly or indirectly controlled by Artémis, a French incorporated holding company
"Board" or "Directors"	the directors of the Company comprises those persons whose names appear on page 3 of this document
"Bermuda Companies Act"	The Companies Act 1981 (as amended) of Bermuda
"Bermuda Insurance Act"	The Insurance Act 1978 (as amended) of Bermuda and its related regulations
"BMA"	"BMA" means the Bermuda Monetary Authority
"CCC"	Continental Casualty Company, a stock insurance company incorporated under the laws of the State of Illinois
"Combined Code"	the Combined Code on Corporate Governance dated June 2006
"Company" or "Tawa"	Tawa plc, a company incorporated in England and Wales with company number 04200676, and other members of the Group or any of them as the context requires
"Continental"	The Continental Corporation, a corporation under the laws of the State of New York
"CREST"	the relevant system (as defined in the Regulations) for the paperless settlement of share transfers and the holding of shares in uncertificated form (as defined in the Regulations) in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in the Regulations)
"CREST Member"	a person who has been admitted by Euroclear UK & Ireland Limited as a system member (as defined in the Regulations)

"CX Re"	CX Reinsurance Company Ltd., a company incorporated in the UK, with company number 01086556
"Deferred Shares"	the deferred shares of 10 pence each in the capital of the Company immediately prior to Admission
"Deferred Share Bonus Plan"	the Tawa 2007 Deferred Share Bonus Plan, further details of which are set out in paragraph 7.2 of Part VII of this document
"DTR"	the Disclosure and Transparency Rules of the FSA brought into effect on 20 January 2007
"EEA"	European Economic Area
"Employee Benefit Trust"	the Tawa Employee Benefit Trust, further details of which are set out in paragraph 7.3 of Part VII of this document
"Enlarged Issued Share Capital"	the issued share capital of the Company immediately following Admission
"Executive Directors"	the executive directors named in paragraph 13 of Part II of this document
"Existing Ordinary Shares"	the issued Ordinary Shares of 10 pence each in the ordinary share capital of the Company immediately prior to Admission assuming that the conversion, the repurchase and the capitalisation issue (all as referred to in paragraphs 3(a), (b) and (c) of Part VII of this document) have occurred but that the Placing and Subscription have not occurred
"Financière Pinault"	Financière Pinault S.C.A.
"FSA"	the UK Financial Services Authority
"FSMA"	the UK Financial Services and Markets Act 2000, as amended
"Group" or "Tawa Group"	the Company and its subsidiary undertakings from time to time including CX Re and KX Re and their subsidiary undertakings from time to time (or any of them)
"Group Insurance Company"	an insurance or reinsurance company owned by the Company or in which the Company has an interest
"HMRC"	Her Majesty's Revenue and Customs
"IFRS"	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) (including those International Accounting Standards issued by the International Accounting Standards Committee (IASC) which have been adopted by the IASB, as well as interpretations of International Financial Reporting Standards developed by the International Financial Reporting Interpretations Committee (IFRIC) and approved by the IASB, as endorsed by the European Union
"IXIS Bank"	IXIS Corporate & Investment Bank
"KBC Peel Hunt" or "KBC"	KBC Peel Hunt Ltd, the Nominated Adviser and broker to the Company
"KX Re"	KX Reinsurance Company Limited, a company incorporated in the UK with company number 00494416 and formerly known as Continental Services Management Limited

"KX Re Holdings"	KX Re Holdings Limited, a company incorporated in the UK with the company number 06154226
"LSE" or "London Stock Exchange"	the London Stock Exchange plc
"Nominated Adviser"	the person appointed and retained as nominated adviser by the Company as required by the AIM Rules in order to be eligible for AIM
"Non-Executive Directors"	the non-executive directors named in paragraph 13 of Part II of this document
"Ordinary Shares"	Ordinary Shares of 10 pence each in the capital of the Company
"Panel"	the Panel on Takeover and Mergers
"Performance Share Plan"	the Tawa 2007 Performance Share Plan, further details of which are set out in paragraph 7.1 of Part VII of this document
"Placing"	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement, as described in this document
"Placing Agreement"	the conditional agreement dated 20 July 2007 and made between (1) the Company, (2) the Directors (3) Financière Pinault and (4) KBC further details of which are set out in paragraph 19.1 of Part VII of this document
"Placing Price"	125 pence per Ordinary Share
"Placing Shares"	16,000,000 new Ordinary Shares to be issued in connection with the Placing
"Prospectus Directive"	EU Directive 2003/71/EC
"Prospectus Rules"	the prospectus rules made by the FSA under section 84 of FSMA brought into force on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004
"Preferred Shares"	the preferred shares of 10 pence each in the capital of the Company immediately prior to Admission
"Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
"Relationship Deed"	the agreement between the (i) Company and (ii) Financière Pinault dated 20 July 2007, further details of which are set out in paragraph 19.2 of Part VII of this document
"Reorganisation Deed"	the deed dated 28 June 2007 and made between (1) the Company, (2) Financière Pinault (3) the Company's other shareholders as at the date of this document and (4) Tawa Associates, further details of which are set out in paragraph 19.3 of Part VII of this document
"Secretary"	the person appointed to perform any or all of the duties of secretary of the Company and includes any deputy or assistant secretary and any person appointed by the Board to perform any of the duties of the Secretary
"Shareholders"	holders of Ordinary Shares
"Share Plans"	the Performance Share Plan and the Deferred Share Bonus Plan

"Solvency II"	the proposed new European directive for insurers covering their capital requirements and related supervision and introducing a risk-based prudential approach using market consistent methods for the valuation of insurers' assets and liabilities. The directive is expected to come into effect in 2010 and replace a series of existing European directives and overtake a number of requirements currently imposed by individual regulators
"subsidiary undertakings"	the same meaning given to that term in section 258 of the Act
"Subscription"	the conditional subscription for the Subscription Shares by Financière Pinault at the Placing Price pursuant to the Placing Agreement
"Subscription Shares"	5,891,017 new Ordinary Shares to be issued in connection with the Subscription
"the Takeover Code" or "Code"	the UK City Code on Takeovers and Mergers
"Tawa Associates"	Tawa Associates Ltd., a company incorporated in the UK with company number 04200683
"Tawa Management"	Tawa Management Ltd., a company incorporated in the UK with company number 04200680
"Tawa Management (Bermuda)"	Tawa Management (Bermuda) Limited, an exempted company incorporated in Bermuda with registration number 38995
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority"	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
"USA", "US" or "United States"	the United States of America, its territories and possessions, any state in the United States of America, the District of Columbia and all other areas subject to its jurisdiction

In this document all references to times and dates are in reference to those observed in London, United Kingdom.

In this document the symbols "£" and "p" refer to pounds and pence sterling respectively and the symbols "$" and "cents" refer to US dollars and cents respectively.

In this document US$ amounts which have been translated into pounds sterling have been translated at a rate of US$2.037 for: £1 being the rate prevailing on 16 July 2007.

GLOSSARY

The following technical terms apply throughout this document, unless the context requires otherwise:

"ALM"	asset and liability management
"book"	business in force
"broker"	one who negotiates contracts of insurance or reinsurance, receiving remuneration for placement and other services rendered, between (1) a policyholder and a primary insurer, on behalf of the insured party, (2) a primary insurer and reinsurer, on behalf of the primary insurer or (3) a reinsurer and a retrocessionaire, on behalf of the reinsurer
"catastrophe"	a severe loss, typically involving multiple claimants. Common perils include earthquakes, hurricanes, hailstorms, severe winter weather, floods, fires, tornadoes, explosions and other natural or man-made disasters. Catastrophe losses may also arise from acts of war, acts of terrorism and political instability
"catastrophe losses"	losses and directly identified loss adjustment expenses resulting from catastrophes
"claim"	injury or loss leading to a request by a policyholder for payment from an insurer
"claims made policy"	an insurance policy covering liability or damage arising from certain events (including events occurring, or liabilities or damages arising, prior to the effective date of the policy, but subsequent to the retroactive date, if any), as long as the claim in respect of that liability or damage is first made during the policy period (or any extended reporting period).
"class of business"	category of insurance business defined by the subject matter of the item at risk (e.g., hull, cargo, liabilities to third parties, oil rigs etc.) or nature of the cover provided
"commutation"	an agreement between (1) a policyholder and insurer or (2) an insurer or reinsurer and a reinsurer under which, in return for payment of a specified amount, the insurer or reinsurer is given a discharge of all existing and future obligations under an insurance or reinsurance agreement(s)
"controller"	an individual or body corporate holding 10 per cent or more of the shares in, or entitled to exercise or control the exercise of 10 per cent or more of the voting power in, or which is able to exercise a significant influence by virtue of its shareholding or voting power over the management of a company regulated by the FSA (save for FSA regulated insurance intermediaries, where the above references to 10 per cent should be replaced with references to 20 per cent) or Lloyd's, or a parent undertaking of any such company
"Council"	the Council of Lloyd's established by the Lloyd's Act 1982 and any person or delegate acting under its authority. The Council has the management and superintendence of the affairs of Lloyd's and the power to regulate and direct the business of Lloyd's

"direct insurance"	insurance sold by an insurer that contracts with the insured, as distinguished from reinsurance
"exposure"	the possibility of loss. A unit of measure of the amount of risk a company assumes.
"incurred but not reported reserves" or "IBNR"	reserves for estimated losses that have been incurred but not yet reported to the insurer or reinsurer
"insurer"	an insurance company or Lloyd's underwriter that, in return for a consideration (a premium), agrees to make good, in a manner laid down in the policy, loss or damage suffered by the person paying the premium, as a result of some accident or occurrence
"line"	the proportion of a risk or class of risks accepted by an insurer. Also used to refer to the monetary value which an insurer has fixed as his maximum exposure for any one risk
"Lloyd's"	the Society and Corporation of Lloyd's created and governed by the Lloyd's Acts 1871-1982
"London market"	the sector of the insurance market where insurance and reinsurance business is transacted on a face-to-face basis in the City of London
"long-tail"	a term used to describe insurance business where it is known from experience that notification and settlement of claims could take many years
"loss"	an event that is the basis for submission or payment of a claim. Losses may be covered, limited or excluded from coverage, depending on the terms of the insurance policy or reinsurance contract
"loss adjustment expense" or "LAE" or "loss expenses"	the expense involved in an insurance or reinsurance company settling a loss, excluding the actual value of the loss, and the anticipated overhead cost of the run-off
"NAV"	net asset value
"Name"	an individual underwriting member of Lloyd's
"non-admitted insurer"	an insurer which is not licensed to transact the business of insurance in a given US state, including an insurer which is nevertheless eligible to write surplus lines insurance in any US state
"occurrence policy"	an insurance policy covering liability or damage arising from certain events, as long as the event occurred, or the liability or damage arose, during the policy period, regardless of when a claim under the policy is actually made.
"open market"	used to refer to a risk that is individually placed in the market as opposed to one that is covered under a binding authority, line slip or treaty
"Part VII transfers"	means the process legislated under Part VII of the Financial Services and Markets Act 2000, whereby (re)insurance businesses may be transferred from one (re)insurer to another by way of a court sanctioned scheme

"premiums"	the amount charged by (re)insurers to provide coverage under (re)insurance policies for property loss, damage or loss of use
"reinsurance"	an arrangement in which a reinsurer agrees to cover another insurer or reinsurer (referred to as the cedant) against all or a portion of the insurance or reinsurance risks underwritten by the cedant under one or more policies. Reinsurance can provide a cedant with several benefits, including a reduction in net liability on individual risks and catastrophe protection from large or multiple losses. Reinsurance also provides a cedant with additional underwriting capacity by permitting it to accept risks and write more business than would be possible without a concomitant increase in capital and surplus, and facilitates the maintenance of acceptable financial ratios by the cedant. Reinsurance does not legally discharge the primary insurer from its liability with respect to its obligations to the insured
"ROIC"	return on investment capital
"run-off" or "non-life run-off"	an insurer or reinsurer is in run-off when it stops issuing new policies and continues to adjust and pay claims under previously issued policies and the terms include such previously issued policies. The terms also mean the liability of an insurance or reinsurance company under previously issued policies for future claims that it expects to pay and for which a loss reserve has been established
"short-tail"	a term used to describe business where it is known from experience that claims are normally notified and settled quickly
"stochastic analysis"	a stochastic process, or sometimes random process, is the counterpart of a deterministic process (or deterministic system) considered in probability theory. Instead of dealing only with one possible 'reality' of how the process might evolve under time (as it is the case for solutions of an ordinary differential equation, just as an example), in a random process there is some indeterminacy in its future evolution described by probability distributions. This means that even if the initial condition (or starting point) is known, there are more possibilities the process might go to, but some paths are more probable and others less
"surplus lines insurance"	such insurance as is permitted by the laws of a US state to be placed by a properly licensed surplus lines insurance broker with a non-admitted insurer that has met the relevant state's criteria for eligibility to accept such placements
"syndicate"	a group of Names and/or corporate members underwriting insurance business at Lloyd's through the agency of a managing agent to which a particular syndicate number is assigned by or with the authority of the Council

APPENDIX

TERMS AND CONDITIONS OF THE PLACING

For Invited Placees only – Important Information

1. Eligible Participants

This document, including the terms and conditions of the Placing set out in this Appendix, is directed only at persons who are both "qualified investors" ("FSMA Qualified Investors") as referred to at section 86(7) of the Financial Services and Markets Act 2000 ("FSMA") and are persons at or to whom any private communication relating to the Company that is a "financial promotion" (as such term is used in relation to FSMA) may lawfully be issued, directed or otherwise communicated without the need for it to be approved, made or directed by an "authorised person" as referred to in FSMA.

In this Appendix "Placee" means any person who is or becomes committed to acquire Placing Shares under the Placing.

Members of the public are not eligible to take part in the Placing.

2. Overseas jurisdictions

The distribution of this document and/or issue of ordinary shares pursuant to the Placing or otherwise in certain jurisdictions outside the United Kingdom may be restricted by law. Persons who seek to participate in the Placing must inform themselves about and observe any such restrictions. In particular, this document does not constitute an offer to sell or issue or the solicitation of an offer to buy ordinary shares in the United States, Canada, Japan or Australia or in any other jurisdiction in which such offer or solicitation is or would be unlawful.

The Placing Shares have not been and will not be registered under the US Securities Act of 1933, as amended ("the US Securities Act") or under the securities laws of any State or other jurisdiction of the United States, and, subject to certain exceptions, may not be offered or sold, resold or delivered, directly or indirectly in or into the United States, or to, or for the account or benefit of, any US persons (as defined in Regulation S under the US Securities Act). No public offering of the Placing Shares is being made in the United States. No money, securities or other consideration from any person inside the United States is being solicited pursuant to this document or the Placing.

3. Placing

KBC Peel Hunt is arranging the Placing as agent for and on behalf of the Company. KBC Peel Hunt will determine in its absolute discretion the extent of each Placee's participation in the Placing, which will not necessarily be the same for each Placee. No commissions will be paid to or by Placees in respect of their agreement to acquire any Placing Shares.

Each Placee will be required to pay to KBC Peel Hunt, on the Company's behalf, the Placing Price for each Placing Share agreed to be acquired by it under the Placing in accordance with the terms set out in this Appendix. Each Placee's obligation to acquire and pay for Placing Shares under the Placing will be owed to each of KBC Peel Hunt and the Company. Each Placee will be deemed to have read this Appendix in its entirety. To the fullest extent permitted by law and applicable FSA rules, neither KBC Peel Hunt nor any other KBC Person shall have any liability to Placees or to any person other than the Company in respect of the Placing.

4. Participation and settlement

Participation in the Placing is only available to persons who are invited to participate in it by KBC Peel Hunt.

A Placee's commitment to acquire a fixed number of Placing Shares under the Placing will be agreed orally with KBC Peel Hunt. Such agreement will constitute a legally binding commitment on such Placee's part to acquire that number of Placing Shares at the Placing Price on the terms and conditions set out or referred to in this Appendix and subject to the Company's memorandum and articles of association. After such agreement is entered into a written confirmation will be dispatched to the Placee by KBC Peel Hunt confirming (i) the number of Placing Shares that such Placee has agreed to acquire, (ii) the aggregate amount such Placee will be required to pay for those Placing Shares and (iii) settlement instructions. It is expected that such written confirmations will be despatched on the date on which this document is published and that the "trade date" for settlement purposes will be 25 July 2007 and the "settlement date" will be 26 July 2007.

A settlement instruction form will accompany each written confirmation and, on receipt, should be completed and returned to Jamie Reynolds at KBC Peel Hunt by fax on 020 7972 0112 by 3.00 p.m. on 20 July 2007.

Settlement of transactions in the Placing Shares (ISIN: GB00B1Z5KB73) will take place within the CREST system, subject to certain exceptions, on a "delivery versus payment" (or "DVP") basis. Placees should settle against CREST ID: 546. KBC Peel Hunt reserves the right to require settlement for and delivery of any Placing Shares to any Placees by such other means that it deems appropriate if delivery or settlement is not possible or practicable within the CREST system within the timetable set out in this Appendix or would not be consistent with the regulatory requirements in any Placee's jurisdiction.

A Placee whose Placing Shares are to be delivered to a custodian or settlement agent should ensure that the written confirmation is copied and delivered immediately to the appropriate person within that organisation.

5. No Prospectus

No prospectus has been or will be submitted for approval by the FSA in relation to the Placing or the Placing Shares. Placees' commitments in respect of Placing Shares will be made solely on the basis of the information contained in this document and on the terms contained in it.

6. Placing Shares

The Placing Shares will, when issued, be credited as fully paid and will rank pari passu in all respects with the existing ordinary shares in issue on Admission.

Application will be made for the admission of the Placing Shares to trading on AIM. It is expected that Admission will take place, and dealings in the Placing Shares will commence, on 26 July 2007.

7. Placing Agreement

KBC Peel Hunt has agreed, on the terms and subject to the conditions set out in the Placing Agreement, to use its reasonable endeavours as agent of the Company to procure persons to acquire all the Placing Shares at the Placing Price.

8. Placing conditions

The Placing is conditional, inter alia, (i) the Placing Agreement not being terminated in accordance with its terms, (ii) Admission taking place not later than 8.00 a.m. on 26 July 2007, and (iii) the Placing Agreement becoming unconditional in all other respects.

KBC Peel Hunt reserves the right (with the agreement of the Company) to waive or extend the time and or date for the fulfilment of any of the conditions in the Placing Agreement to a time no later than 5.00 p.m. on 1 August 2007 ("the Long Stop Date").

If any condition in the Placing Agreement is not fulfilled or waived by KBC Peel Hunt by the relevant time, the Placing will lapse and each Placee's rights and obligations pursuant to the Placing shall cease and terminate at such time.

The Placing Agreement may be terminated by KBC Peel Hunt at any time prior to Admission in certain circumstances including, *inter alia*, following a material breach of the Placing Agreement by the Company or the occurrence of certain *force majeure* events. The exercise of any right of termination pursuant to the Placing Agreement, any waiver of any condition in the Placing Agreement and any decision by KBC Peel Hunt whether or not to extend the time for satisfaction of any condition in the Placing Agreement or otherwise in respect of the Placing shall be within KBC Peel Hunt's absolute discretion. KBC Peel Hunt shall have no liability to any Placee in the event of any such termination, waiver or extension or in respect of any decision whether to exercise any such right of termination, waiver or extension.

The Company will inform each Placee if KBC Peel Hunt's obligations under the Placing Agreement do not become unconditional by 8.00 a.m. on 26 July 2007, or such later time and date as KBC Peel Hunt and the Company may agree (being no later than 5.00 p.m. on the Long Stop Date).

9. Payment default

A Placee's entitlement to receive any Placing Shares will be conditional on KBC Peel Hunt's receipt of payment by the relevant time to be stated in the written confirmation referred to above, or by such later time and date as KBC Peel Hunt may in its absolute discretion determine. KBC Peel Hunt may, in its absolute discretion, waive such condition, and shall not be liable to any Placee in the event of it deciding whether to waive or not to waive such condition.

If any Placee fails to make such payment by the required time for any Placing Shares (1) the Company may release itself (if it decides, at its absolute discretion, to do so) and will be released from all obligations it may have to allot and/or issue any such Placing Shares to such Placee or at its direction which are then unallotted and/or unissued, (2) the Company may exercise all rights of lien, forfeiture and set-off over and in respect of any such Placing Shares to the fullest extent permitted under its articles of association or otherwise by law and to the extent that such Placee then has any interest in or rights in respect of any such shares, (3) the Company or, as applicable, KBC Peel Hunt may sell (and each of them is irrevocably authorised by such Placee to do so) all or any of such shares on such Placee's behalf and then retain from the proceeds, for the account and benefit of the Company or, where applicable, KBC Peel Hunt (i) any amount up to the total amount due to it as, or in respect of, subscription monies, or as interest on such monies, for any Placing Shares, (i) any amount required to cover any stamp duty or stamp duty reserve tax arising on the sale, and (iii) any amount required to cover dealing costs and/or commissions necessarily or reasonably incurred by it in respect of such sale, and (4) such Placee shall remain liable to the Company and to KBC Peel Hunt for any loss which it may suffer as a result of it (i) not receiving payment in full for such Placing Shares by the required time, and/or (ii) the sale of any such Placing Shares to any other person at whatever price and on whatever terms are actually obtained for such sale by or for it. Interest may be charged in respect of payments not received by KBC Peel Hunt for value by the required time referred to above at the rate of two percentage points above the base rate of Barclays Bank plc.

10. Placees' warranties and undertakings to the Company and KBC Peel Hunt

By agreeing with KBC Peel Hunt to acquire Placing Shares under the Placing a Placee will irrevocably acknowledge and confirm and warrant and undertake to, and agree with, each of the Company and KBC Peel Hunt, in each case as a fundamental term of such Placee's application for Placing Shares and of the Company's obligation to allot and/or issue any Placing Shares to it or at its direction, that:

(a) it agrees to and accepts all the terms set out in this Appendix and all other terms relating to the Placing set out in this document;

(b) its rights and obligations in respect of the Placing will terminate only in the circumstances described in this Appendix and will not be capable of rescission or termination by it in any circumstances;

(c) the contents of this document, which has been issued by the Company, are the responsibility of the Company and of those persons who are stated in it as having accepted responsibility for such contents, and of no other persons;

(d) it has not been, and will not be, given any warranty or representation in relation to the Placing Shares or to the Company or to any other member of its Group in connection with the Placing, other than by the Company as included in this document;

(e) it has not relied on any representation or warranty in reaching its decision to acquire Placing Shares under the Placing, save as given or made by the Company as referred to in the previous paragraph;

(f) it is not a customer of KBC Peel Hunt in relation to the Placing and KBC Peel Hunt is not acting for it in connection with the Placing and will not be responsible to it in respect of the Placing for providing protections afforded to its customers;

(g) it has not been, and will not be, given any warranty or representation by any KBC Person in relation to any Placing Shares or the Company or any other member of its Group;

(h) it will pay the full amount at the Placing Price as and when required in respect of all Placing Shares allocated to it in accordance with such terms and will do all things necessary on its part to ensure that payment for such shares and their delivery to it or at its direction is completed in accordance with the standing CREST instructions (or, where applicable, standing certificated settlement instructions) that it has in place with KBC Peel Hunt or put in place with KBC Peel Hunt with its agreement;

(i) it is not, and will not by virtue of acquiring the Placing Shares be, either alone or in conjunction with any other party, a controller of any of the Company's subsidiaries as described in paragraph 21 of Part II of this document;

(j) The offer of Placing Shares to it is conditional upon the applicable regulator having given its unconditional consent to holding such number of Placing Shares in the event that by virtue of holding such Placing Shares it would become a controller of any of the Company's subsidiaries as described in paragraph 21 of Part II of this document provided that KBC Peel Hunt shall be entitled to reduce the number of Placing Shares to ensure it does not become such a controller;

(k) in the event that the offer of Placing Shares to the Placee is conditional upon the consent referred to in the paragraph above it will promptly provide KBC Peel Hunt with all information and documentation and to execute all such deeds, documents and undertakings as the relevant regulator may require prior to, or as a condition of, granting its consent to the Placee being a controller as referred to in the paragraph above;

(l) it is entitled to acquire Placing Shares under the laws of all relevant jurisdictions which apply to it and it has complied, and will fully comply, with all such laws (including where applicable, the Anti-Terrorism, Crime and Security Act 2001, the Proceeds of Crime Act 2002, and the Money Laundering Regulations 2003) and has obtained all governmental and other consents (if any) which may be required for the purpose of, or as a consequence of, such acquisition, and it will provide promptly to KBC Peel Hunt such evidence, if any, as to the identity of any person which it may request from it (for the purpose of its complying with such Regulations or otherwise in connection with its participation in the Placing) in the form and manner requested by KBC Peel Hunt on the basis that any failure by it to do so may result in the number of Placing Shares that are to be allotted and/or issued to it or at its direction pursuant to the Placing being reduced to such number, or to nil, as KBC Peel Hunt may decide at its sole discretion;

(m) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done or to be done by it in relation to any Placing Shares in, from or otherwise involving the United Kingdom and it has not made or communicated or caused to be made or communicated, and it will not make or communicate or cause to be made or communicated, any "financial promotion" in relation to Placing Shares in contravention of section 21 of FSMA;

(n) it is a FSMA Qualified Investor and is a person to whom a "financial promotion" (as such term is used in relation to FSMA) may lawfully be issued, directed or otherwise communicated without the need for it to be approved, made or directed by an "authorised person" as referred to in FSMA;

(o) it is acting as principal only in respect of the Placing or, if it is acting for any other person in respect of the Placing (1) it is both an "authorised person" for the purposes of FSMA and a "qualified investor" as defined at Article 2.1(e)(i) of Directive 2003/71/EC (known as the Prospectus Directive) acting as agent for such person, and (2) such person is either (i) a FSMA Qualified Investor or (ii) a "client" (as defined in section 86(2) of FSMA) of its that has engaged it to act as his agent on terms which enable it to make decisions concerning the Placing or any other offers of transferable securities on his behalf without reference to him and is a person to whom a "financial promotion" (as such term is used in relation to FSMA) may lawfully be issued, directed or otherwise communicated without the need for it to be approved, made or directed by an "authorised person" as referred to in FSMA;

(p) nothing has been done or will be done by it in relation to the Placing or to any Placing Shares that has resulted or will result in any person being required to publish a prospectus in relation to the Company or to any ordinary shares in accordance with FSMA or the UK Prospectus Rules or in accordance with any other laws applicable in any part of the European Union or the European Economic Area;

(q) it is not, and are not acting in relation to the Placing as nominee or agent for, a person who is or may be liable to stamp duty or stamp duty reserve tax in respect of any agreement to acquire (or any acquisition of) shares or other securities at a rate in excess of 0.5 per cent. (including, without limitation, under sections 67, 70, 93 or 96 of the Finance Act 1986 concerning depositary receipts and clearance services), and the allocation, allotment, issue and/or delivery to it, or any person specified by it for registration as holder, of Placing Shares will not give rise to a liability under any such section;

(r) it will not treat any Placing Shares in any manner that would contravene any legislation applicable in any territory or jurisdiction and no aspect of its participation in the Placing will contravene any legislation applicable in any territory or jurisdiction in any respect or cause the Company or KBC Peel Hunt to contravene any such legislation in any respect;

(s) (applicable terms and expressions used in this paragraph have the meanings that they have in Regulation S made under the US Securities Act) (1) none of the Placing Shares has been or will be registered under the US Securities Act, (2) none of the Placing Shares may be offered, sold, taken up or delivered, directly or indirectly, into or within the United States except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the US Securities Act, (3) it is not within the United States and it is not a US person, (4) it has not offered, sold or delivered and will not offer sell or deliver any of the Placing Shares to persons within the United States, directly or indirectly, (5) neither it, any of its affiliates, nor any person acting on its behalf, has engaged or will engage in any directed selling efforts with respect to the Placing Shares, (6) it will not be acquiring Placing Shares with a view to resale in or into the United States, and (7) it will not distribute any offering material relating to Placing Shares, directly or indirectly, in or into the United States or to any persons resident in the United States;

(t) it will be bound by the articles of association of the Company (as amended from time to time) once the Placing Shares which it has agreed to subscribe for have been issued or transferred to it;

(u) it will (or will procure that its nominee will) if applicable make notification to the Company of its interest in the Company's shares in accordance with rule 5 of the Disclosure and Transparency Rules of the FSA;

(v) KBC Peel Hunt may (at its absolute discretion) satisfy its obligations to procure Placees by itself agreeing to become a Placee in respect of some or all of the Placing Shares or by nominating any other KBC Person or any person associated with any KBC Person to do so;

(w) time is of essence as regards its obligations under this Appendix;

(x) this Appendix and any contract which may be entered into between it and KBC Peel Hunt and/or the Company pursuant to it or the Placing shall be governed by and construed in accordance with the laws of England, for which purpose it submits to the exclusive jurisdiction of the courts of England and Wales as regards any claim, dispute, or matter arising out of or relating to this Appendix or such contract, except that each of the Company and KBC Peel Hunt shall have the right to bring enforcement proceedings in respect of any judgement obtained against such Placee in the courts of England and Wales in the courts of any other relevant jurisdiction;

(y) nothing in this Appendix shall exclude any liability of any person for fraud on its part. All times and dates in this Appendix are subject to amendment at the discretion of KBC Peel Hunt, except that in no circumstances will the date scheduled for Admission be later than the Long Stop Date; and

(z) none of its rights or obligations in respect of the Placing is conditional on any other person agreeing to acquire any Placing Shares under the Placing and no failure by any other Placee to meet any of its obligations in respect of the Placing shall effect any of its obligations in respect of the Placing.