

# ADYE Holdings Limited

## GROUP REPORT & FINANCIAL STATEMENTS

30 June 2010

Company Registration No. 98427

# ADYE Holdings Limited

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# ADYE Holdings Limited

## DIRECTORS, OFFICERS AND OTHER INFORMATION

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**Directors:**

A Flowers  
N Cruz  
J Jacobson  
P Martinez

**Secretary:**

Acquarius Company Secretaries Limited  
Elaine Jones

**Auditors:**

Baker Tilly (Gibraltar) Limited  
Regal House  
Queensway  
Gibraltar

**Bankers:**

Coutts & Co  
440 Strand  
London WC2R 0QS

**Registered Office:**

Suite 3, 2nd Floor  
ICOM House  
1/5 Irish Town  
Gibraltar

# ADYE Holdings Limited

## DIRECTORS' REPORT

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The directors submit their report and the audited financial statements of the Group for the year ended 30 June 2010.

### **Principal activity**

The Company is registered in Gibraltar and is an investment holding company. The Company was incorporated on 30 March 2007. The principal activity of its main subsidiary undertaking, Enterprise Insurance Company Plc ("EICP"), is that of the provision of a number of bespoke and tailored wholesale insurance solutions.

### **Review of business and future developments**

EICP's stated aim for some time has been to develop a strategy of diversification into multiple sector niche insurance products.

This strategy has accelerated in the year as EICP commenced writing niche motor insurance in the UK, France and Greece under the Freedom of Services Act. In total, motor business accounted for £4.2m (20%) of total gross premiums written of £21m. It is anticipated that this area will see the biggest growth in gross premiums written in 2011. The Board have taken a cautious approach to reinsurance and have entered into Excess of Loss treaties at the lowest possible retention levels in all markets and we will continue this strategy into 2011.

UK Warranty and Gap business contributed £7.9m (38%) of gross premiums written and it is anticipated that a similar level will be written in 2011. The historic core business of 'After the Event' legal expense business witnessed significant volume growth in the year increasing from £2.4m in 2009 to £6.5m (31% of total gross written) in 2010. UK Household and Property premiums written were restricted to £1.3m (6%). Other various and miscellaneous products contributed £1m (5%) of premium written.

EICP's Board is pleased that it has been able to develop the product portfolio as highlighted above and continues to work with new and existing partners to develop other niche product offerings that are geographically, class and sector diversified. The overall strategy remains one of working closely with trusted partners to provide unique and bespoke low risk insurance products.

With an eye on Solvency II and to ensure adequate controls are in place to underpin EICP's continued controlled growth its Board has recruited a number of skilled professional individuals and engaged additional resource from well known and respected professional firms to provide a range of control functions ranging from Internal Audit and Compliance, Claims Management and Actuarial Support.

An additional £1m of share capital was introduced during the year to EICP and a further £950k was introduced subsequent to the year end to support the growth in premium income.

In summary, the Board is delighted with the performance of the Group for 2010 and confident that 2011 will see increases in both premiums written and profits.

### **Results and dividends**

The results of the Group for the year are shown in the profit and loss account on pages 7 and 8. The directors do not recommend payment of dividend.

# ADYE Holdings Limited

## DIRECTORS' REPORT *(continued)*

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### **Financial risk management objectives and policies**

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from the financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of financial risk are price risk, currency risk, credit risk, liquidity risk and cash flow interest rate risk.

The Group manages these positions with its investment managers to achieve investment returns in excess of obligations under insurance contracts.

### **Interest rate risk**

Cash deposits are held in interest bearing current accounts and the revenue generated on these is consequently subject to variations in interest rates. However, given the relative immateriality of interest earned it is felt unnecessary to employ any hedging instruments.

### **Credit risk**

Credit risk arises from policies sold on a deferred basis where premium is due on settlement of the case. As at 30th June 2010, debtors from fully deferred schemes represented £6,164,960 of which £256,245 were settled within more than 90 days and £101,771 were settled within less than 90 days. In addition, the debtors for part deferred schemes where a portion of the premium is paid on policy inception and the balance on case conclusion, represented £1,031,241.

In addition, credit risk arises from policies sold on a non-deferred basis where premium is due on or soon after policy inception. The Group actively manages credit control to minimise credit risk. Of the £3,857,535 non-deferred debtors, £3,832,338 was due within less than 90 days.

### **Liquidity risk**

The Group retains a significant proportion of Gross Written Premiums in separately identifiable retention bank accounts thereby ensuring a prudent level of cash is available to meet its obligations arising from policies. In addition the Group's other financial investments are held in short term and near cash instruments with weekly rolling cash deposits and a sterling liquidity fund UCIT.

### **Currency risk**

In the year to 30 June 2010, the Group commenced writing insurance business in France and Greece thereby exposing the Group to Euro currency risk. The level of business written in these countries amounted to a sterling equivalent of £2.4m relative to total premiums written of £21m. Cash receipts from policies sold have been deposited in Euro bank accounts in order to match with potential liabilities arising from the sale of policies. Given the relative immateriality of the exposure to currency risk the Directors do not feel it is appropriate to employ any hedging strategies at this time.

### **Directors and their interests**

The directors of the Company during the year were as follows:

Andrew Flowers

Nicholas Cruz

James Jacobson

(appointed on 1 April 2010)

Paul Martinez

(appointed on 1 April 2010)

No director had a direct interest in the shares of the Company.

# ADYE Holdings Limited

## DIRECTORS' REPORT *(continued)*

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### **Statement of Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Gibraltar Companies Act, the Insurance Companies (Accounts Directive) Regulations 1997 and the Companies (Accounts) Act 1999. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility extends to the ongoing integrity of the financial statements contained therein.

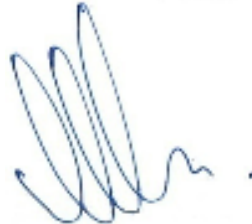
### **Auditors**

The retiring auditors are Baker Tilly (Gibraltar) Limited who are eligible for reappointment.



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Andrew Flowers



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Nicholas Cruz

4 March 2011

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
ADYE HOLDINGS LIMITED**

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This report is made solely to the company's members, as a body, in accordance with section 182 of the Gibraltar Companies Act. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Report on the Financial Statements**

We have audited the group financial statements of ADYE Holdings Limited for the year ended 30 June 2010 which comprise the Group Profit and Loss account, the Group Balance Sheet, the Company Balance sheet, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Directors' responsibilities**

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with the Gibraltar Companies Act, the Insurance Companies (Accounts Directive) Regulations and Gibraltar Accounting Standards (Gibraltar Generally Accepted Accounting Practice). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibilities**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view, in accordance with Gibraltar Generally Accepted Accounting Practice, of the state of the group's and the company's affairs as at 30 June 2010 and of the group's results for the year then ended.

**Report on Other Legal and Regulatory Requirements**

In addition to reporting on the financial statements, Gibraltar legal and regulatory requirements also require us to:

- (a) Report to you our opinion as to whether the financial statements have been properly prepared in accordance with the Gibraltar Companies Act and the Insurance Companies (Accounts Directive) Regulations 1997.
- (b) State in our report whether in our opinion the information given in the Directors' Report is consistent with the financial statements.
- (c) Report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

**Opinion**

In our opinion, the financial statements have been properly prepared in accordance with the Gibraltar Companies Act, the Insurance Companies (Accounts Directive) Regulations 1997 and the information given in the Directors' Report is consistent with the financial statements.

We have nothing to report to you in respect of our responsibility set out in (c) above.



**Jose Julio Pisharello**  
Statutory auditor for and on behalf of

**BAKER TILLY (GIBRALTAR) LIMITED**  
Registered Auditors

Chartered Accountants  
Regal House  
Queensway  
Gibraltar

4 March 2011

# ADYE Holdings Limited

GROUP PROFIT AND LOSS ACCOUNT for the year ended 30 June 2010

## TECHNICAL ACCOUNT

	Notes	2010		2009	
		£	£	£	£
<b>Earned premiums, net of reinsurance</b>					
Gross written premiums	2	20,973,861		9,755,929	
Outward reinsurance premiums	2	(1,527,281)		-	
<b>Net written premiums</b>			<b>19,446,580</b>		9,755,929
Change in the gross provision for unearned premiums	2	(4,951,343)		(5,266,469)	
Change in the provision for unearned premiums, reinsurers' share	2	712,219		-	
			<b>(4,239,124)</b>		(5,266,469)
<b>Earned premiums, net of reinsurance</b>			<b>15,207,456</b>		4,489,460
<b>Other technical (expense) / income</b>			<b>(19,380)</b>		11,809
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount	3	(6,150,657)		(764,273)	
Reinsurer's share	3	367,372		-	
			<b>(5,783,285)</b>		(764,273)
Change in the provision for claims					
Gross amount	3	(1,564,854)		(337,709)	
Reinsurer's share	3	6,820		146,903	
			<b>(1,558,034)</b>		(190,806)
<b>Claims incurred, net of reinsurance</b>			<b>(7,341,319)</b>		(955,079)
<b>Net operating expenses</b>	4		<b>(3,307,515)</b>		(243,386)
<b>Balance on the Technical Account</b>		<b>£</b>	<b>4,539,242</b>	<b>£</b>	<b>3,302,804</b>

The notes on pages 14 to 29 form part of these financial statements.

# ADYE Holdings Limited

GROUP PROFIT AND LOSS ACCOUNT for the year ended 30 June 2010

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## NON - TECHNICAL ACCOUNT

	Notes	2010 £	2009 £
<b>Balance on the General Business Technical Account</b>		<b>4,539,242</b>	<b>3,302,804</b>
<b>Investment income</b>			
Interest receivable		1,371	19,285
Unrealised gain on investments		6,749	-
<b>Other income</b>		<b>124,450</b>	<b>20,114</b>
<b>Other charges</b>	5	<b>(1,917,333)</b>	<b>(1,517,933)</b>
<b>Profit on ordinary activities before tax</b>		<b>2,754,479</b>	<b>1,824,270</b>
Tax on profit on ordinary activities	6	(1,949)	(1,801)
<b>Profit for the financial year</b>		<b>2,752,530</b>	<b>1,822,469</b>

The group has had no discontinued activities in the year, accordingly, the above results for the group relate solely to continuing activities. This profit is stated on an historical cost basis.

The notes on pages 14 to 29 form part of these financial statements.

# ADYE Holdings Limited

GROUP BALANCE SHEET as at 30 June 2010

## ASSETS

	Notes	2010		2009	
		£	£	£	£
<b>Intangible assets</b>					
Goodwill	7		383,997		460,797
<b>Investments</b>					
Financial investments	8		5,505,379		-
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums		712,219		-	
Claims outstanding	3	885,500		878,680	
			<b>1,597,719</b>		<b>878,680</b>
<b>Debtors</b>					
Debtors arising out of direct insurance operations – amounts owed by intermediaries		10,926,944		8,494,658	
Debtors arising out of reinsurance operations		405,732		-	
Other debtors		511,752		765,769	
			<b>11,844,428</b>		<b>9,260,427</b>
<b>Other assets</b>					
Tangible fixed assets	9	95,413		90,349	
Cash at bank and in hand		3,144,399		1,910,212	
			<b>3,239,812</b>		<b>2,000,561</b>
<b>Prepayments and accrued income</b>					
Deferred acquisition costs		930,155		59,217	
Other prepayments and accrued income		72,198		32,822	
			<b>1,002,353</b>		<b>92,039</b>
<b>Total assets</b>		<b>£ 23,573,688</b>		<b>£ 12,692,504</b>	

The notes on pages 14 to 29 form part of these financial statements.

# ADYE Holdings Limited

GROUP BALANCE SHEET as at 30 June 2010 (*continued*)

## LIABILITIES

	Notes	2010		2009	
		£	£	£	£
<b>Capital and reserves</b>					
Called up share capital	10, 11	700		700	
Share premium account	11	699,550		699,550	
Profit and loss account	11	4,401,141		1,648,611	
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Equity shareholders' funds</b>		<b>5,101,391</b>		<b>2,348,861</b>	
<b>Equity minority interests</b>		<b>51,000</b>		<b>175,999</b>	
<b>Technical provisions</b>					
Provision for unearned premiums					
- gross amount	2	10,245,888		5,294,545	
Claims outstanding – gross amount	3	3,258,337		1,693,483	
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
		<b>13,504,225</b>		<b>6,988,028</b>	
<b>Creditors</b>					
Creditors arising out of direct insurance operations		116,412		-	
Creditors arising out of reinsurance operations		807,275		-	
Amounts due to financial institutions	12	-		916,636	
Other creditors - including taxation and social security	13	3,846,758		2,136,055	
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
		<b>4,770,445</b>		<b>3,052,691</b>	
<b>Accruals and deferred income</b>		<b>146,627</b>		<b>126,925</b>	
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities and shareholders' equity</b>		<b>£ 23,573,688</b>		<b>£ 12,692,504</b>	
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Approved and signed on behalf of the Board of directors on 4 March 2011.



Andrew Flowers



Nicholas Cruz

The notes on pages 14 to 29 form part of these financial statements.

# ADYE Holdings Limited

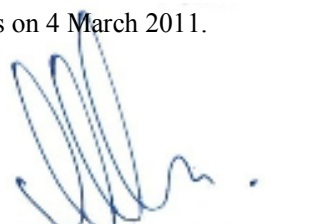
COMPANY BALANCE SHEET as at 30 June 2010

	Notes	2010 £	2009 £
<b>ASSETS</b>			
<b>Investments</b>			
Investment in group undertakings	8	2,000,000	2,000,000
<b>Debtors</b>			
Sundry debtors		250	250
<b>Total assets</b>		<b>£ 2,000,250</b>	<b>£ 2,000,250</b>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	10,11	700	700
Share premium account	11	699,550	699,550
Profit and loss account		(73,212)	(30,142)
<b>Equity shareholders' funds</b>		<b>627,038</b>	<b>670,108</b>
<b>Creditors:</b>			
Amounts due to group undertakings		1,364,622	673,787
Other creditors		7,590	650,000
		<b>1,372,212</b>	<b>1,323,787</b>
Accruals and deferred income		1,000	6,355
		<b>1,373,212</b>	<b>1,330,142</b>
<b>Total liabilities and shareholders' equity</b>		<b>£ 2,000,250</b>	<b>£ 2,000,250</b>

Approved and signed on behalf of the Board of directors on 4 March 2011.



Andrew Flowers



Nicholas Cruz

The notes on pages 14 to 29 form part of these financial statements.

# ADYE Holdings Limited

## GROUP CASH FLOW STATEMENT for the year ended 30 June 2010

	Notes	2010		2009	
		£	£	£	£
<b>Net cash inflow from operating activities</b>	14(i)		<b>7,751,734</b>		554,315
<b>Returns on investments and servicing of finance</b>					
Interest received		<b>1,371</b>		19,285	
Interest paid		<b>(29,862)</b>		(61,202)	
			<b>(28,491)</b>		(41,917)
<b>Taxation</b>					
Taxation paid			<b>(1,350)</b>		(1,350)
<b>Capital expenditure and financial investments</b>					
Payments to acquire tangible fixed assets			<b>(65,691)</b>		(27,115)
<b>Net cash inflow before financing</b>			<b>7,656,202</b>		483,933
<b>Financing</b>					
Receipt from increase in loans			-	274,768	
Payment of loan			<b>(916,636)</b>		-
<b>Net increase in cash</b>			<b>6,739,566</b>		758,701
<b>Cash flows were invested as follows:</b>					
Increase in cash			<b>1,234,187</b>	758,701	
Increase in financial investments			<b>5,505,379</b>		-
			<b>6,739,566</b>	758,701	

The notes on pages 14 to 29 form part of these financial statements.

# ADYE Holdings Limited

## GROUP CASH FLOW STATEMENT for the year ended 30 June 2010 (*continued*)

	Notes	2010 £	2009 £
<b>Movement in opening and closing portfolio investments net of financing:</b>			
Net cash flow for the period	14(ii)	6,739,566	758,701
Net decrease / (increase) in loans and overdrafts		916,636	(274,768)
		<u>7,656,202</u>	<u>483,933</u>
Portfolio investments net of financing b/fwd		993,576	509,643
		<u>8,649,778</u>	<u>993,576</u>
<b>Portfolio investments net of financing c/fwd</b>			
		<u><u>8,649,778</u></u>	<u><u>993,576</u></u>
<b>Cash, portfolio investment and financing consisting of:</b>			
Cash at bank		3,144,399	1,910,212
Financial investments		5,505,379	-
Bank loans and overdrafts		-	(916,636)
		<u>8,649,778</u>	<u>993,576</u>
	14(ii)	<u><u>8,649,778</u></u>	<u><u>993,576</u></u>

The notes on pages 14 to 29 form part of these financial statements.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Principal accounting policies

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

#### **Basis of accounting**

The financial statements have been prepared under the historical cost convention, the accounting policies set out below, applicable legislation and in accordance with Gibraltar Accounting Standards.

Gibraltar legislation applied in the preparation of these financial statements includes the Gibraltar Companies Act and the Financial Services (Insurance Companies) Act.

The financial statements have been prepared in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (the "ABI SORP") on Accounting for Insurance Business issued in December 2005.

The annual basis of accounting has been applied to the class of business underwritten by the Group.

#### **Basis of consolidation**

The consolidated financial statements of the ADYE Group include the assets, liabilities and results of the Company and subsidiary undertakings in which ADYE Holdings Limited has a controlling interest, using accounts drawn up to 30 June 2010.

The Company has taken advantage of the exemption under Section 7 of the Insurance Companies (Accounts Directive) Regulations 1997 from presenting its own profit and loss account.

#### **Business acquisitions**

Business acquisitions are accounted for by applying the acquisition method of accounting, which adjusts the net assets of the acquired company to fair value at the date of purchase. The difference between fair value of net assets of the acquired company and the fair value of the consideration given represents goodwill.

#### **Basis of accounting for insurance business**

The results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance.

#### **Premiums**

Premiums written relate to business incepted during the year, together with any differences between the booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Group less an allowance for cancellations, discounts, refunds and rebates but before deduction of reinsurance ceded and commission payable.

Outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance business.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Principal accounting policies (*continued*)

#### **Unearned premiums reserve**

The unearned premiums reserve represents the proportion of premiums written in the period that relate to the unexpired terms of the policies in force at the balance sheet date. For policies with an indefinite period of insurance the premiums are fully earned on the inception date with an appropriate claims reserve created.

#### **Claims incurred**

Claims incurred comprise claims paid during the financial period together with the movement in the provision for outstanding claims.

Reinsurance recoveries are accounted for in the same accounting period as the claims for the related business being reinsured.

#### **Claims provisions and related reinsurance recoveries**

The provision for claims outstanding is made on an individual basis and is based on the ultimate cost of all claims notified but not settled by the balance sheet date. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods.

The estimation of claims incurred but not reported (“IBNR”) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insurer until many years after the event giving rise to the claim has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between the initial estimates and the final outcomes because of the greater degree of difficulty of estimating those reserves. Classes of business where claims are typically reported relatively quickly after the claim event will tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Group uses a variety of estimation techniques, generally based upon statistical analyses of historic experience, which assumes that the development pattern of the current claims will be consistent with past experience.

#### **Reinsurance recoveries**

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on an annual basis. The Group gathers the evidence that a reinsurance asset is impaired by having regard to market data on the financial strength of each of the reinsurance companies.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Principal accounting policies (*continued*)

#### **Acquisition costs**

Acquisition costs are included within net operating expenses and comprise brokerage and service company acquisition costs incurred on insurance contracts written during the financial period.

They are spread over a period equivalent to that over which the premiums on the underlying business are earned.

Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

#### **Foreign currencies**

##### *(i) Functional and presentation currency*

Items included in these financial statements are measured and presented using British pounds (£), the currency of the primary economic environment in which the Group operates (the 'functional currency'), which is also the Group's presentation currency.

##### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. In respect to assets and liabilities arising from the Group's separately identifiable foreign business, the assets and liabilities are translated at the exchange rate ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

#### **Financial investments**

Investments comprise of shares and other variable yield securities and units in unit trusts stated at market value and deposits with credit institutions which are stated at market value.

#### **Investment income**

Interest income is accounted for as and when it becomes due and receivable.

Realised gains or losses represent the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

Investment return (including realised and the movement in unrealised investment gains and losses) on investments attributable to the general business and associated shareholder's funds is reported in the non-technical account.

#### **Taxation and deferred tax**

The Company has no income liable to Gibraltar taxation. Moreover, the Gibraltar subsidiary companies in the Group have been granted tax exempt status, under the Gibraltar Companies (Taxation and Concession) Act, from payment of corporation tax on profits generated from its activities in Gibraltar (see note 6). Therefore, no provision is made for corporation tax, nor for deferred tax, on profits on activities carried out in Gibraltar during the period.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Principal accounting policies (*continued*)

#### **Taxation and deferred tax (*continued*)**

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

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

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

#### **Goodwill**

Positive goodwill arising on acquisition of a subsidiary undertaking represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. This is stated at cost less amortisation.

Positive goodwill is capitalised and treated as an asset on consolidation. Positive goodwill is regarded as having a limited useful economic life of eight years and is amortised through the profit and loss account on a straight line basis over its useful economic life.

A provision for impairment is made when necessary.

#### **Investments in subsidiary undertakings**

Investments in subsidiary undertakings are recorded in the Company's balance sheet at cost less any necessary provision for impairment in value.

#### **Impairment reviews**

A review for impairment of investments is conducted if events or changes in circumstances indicate that the carrying amount of any asset may not be recoverable in full. To the extent that the carrying amount exceeds the recoverable amount, the asset is impaired and is written down. Any impairment loss is recognised in the profit and loss account.

#### **Tangible fixed assets**

The cost of fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computer equipment	25%
Office equipment	25%

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Principal accounting policies (*continued*)

#### Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred over the term of the lease.

### 2. Earned premiums net of reinsurance

	2010		
	Gross £	Reinsurance £	Net £
Premiums receivable	20,973,861	(1,527,281)	19,446,580
Unearned premiums carried forward	(10,245,888)	712,219	(9,533,669)
Unearned premiums brought forward	5,294,545	-	5,294,545
Change in the provision for unearned premiums	(4,951,343)	712,219	(4,239,124)
Premiums earned	£ 16,022,518	(815,062)	15,207,456
		2009	
	Gross £	Reinsurance £	Net £
Premiums receivable	9,755,929	-	9,755,929
Unearned premiums carried forward	(5,294,545)	-	(5,294,545)
Unearned premiums brought forward	28,076	-	28,076
Change in the provision for unearned premiums	(5,266,469)	-	(5,266,469)
Premiums earned	£ 4,489,460	-	4,489,460

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Claims incurred net of reinsurance

	2010		
	Gross £	Reinsurance £	Net £
Claims paid	6,150,657	(367,372)	5,783,285
Outstanding claims carried forward	3,258,337	(885,500)	2,372,837
Outstanding claims brought forward	(1,693,483)	878,680	(814,803)
	1,564,854	(6,820)	1,558,034
Claims incurred	£ 7,715,511	(374,192)	7,341,319
	2009		
	Gross £	Reinsurance £	Net £
Claims paid	764,273	-	764,273
Outstanding claims carried forward	1,693,483	(878,680)	814,803
Outstanding claims on acquisition of EIG Holdings Limited	(1,355,774)	731,777	(623,997)
	337,709	(146,903)	190,806
Claims incurred	£ 1,101,982	(146,903)	955,079

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 4. Net operating expenses

	2010 £	2009 £
Acquisition costs	4,178,782	527,787
Change in deferred acquisition cost	(870,938)	-
Change in deferred acquisition cost – reinsurers	(329)	-
Other operating expenses	-	15,599
Reinsurance commissions	-	(300,000)
	<u>£ 3,307,515</u>	<u>£ 243,386</u>

### 5. Other charges

	2010 £	2009 £
Bank charges	10,775	14,719
Bank loan interest payable	29,862	61,202
Gross wages and salaries	1,049,152	654,907
Social security costs	16,928	14,929
Auditor's remuneration	45,272	32,438
Depreciation of tangible fixed assets	60,627	139,469
Legal & professional fees	213,659	198,630
Goodwill amortisation	76,800	76,800
Other expenses	414,258	324,839
	<u>£ 1,917,333</u>	<u>£ 1,517,933</u>

The aggregate amounts of emoluments paid to Directors of Group Companies during the year amounted to £674,069 (2009: £405,948). These are included in gross wages and salaries.

The Group bore the cost of an average thirteen (2009: twelve) employees during the year (including directors).

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 6. Taxation

(a) Analysis of charge in the year	2010 £	2009 £
Current tax:		
Gibraltar annual government charge	1,350	1,350
United Kingdom corporation tax	599	801
	<hr/>	<hr/>
	£ 1,949	£ 2,151
Deferred tax:		
Origination and reversal of timing differences from capital allowances	-	(350)
	<hr/>	<hr/>
Tax on Profit for the year	£ 1,949	£ 1,801
	<hr/> <hr/>	<hr/> <hr/>

#### (b) Factors affecting tax charge for the period

The Company had no income liable to Gibraltar taxation. Moreover, the Gibraltar subsidiary companies in the Group enjoyed tax-exempt status in Gibraltar, during the period granted under the Companies (Taxation and Concessions) Act. Under the terms of the Act, as these companies satisfied the criteria for such status, including the payment of an annual government charge of £450 (2009: £450), they are not subject to Gibraltar taxes for the period ended 30 June 2010.

The exemption certificate expired on 31 December 2010. As from 1 January 2011, the Gibraltar subsidiary companies will be liable to Gibraltar corporation tax on taxable profits at the standard rate of Corporation tax in Gibraltar.

The UK subsidiary company is taxed at the applicable rate of UK corporation tax.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 7. Goodwill

	£
<b>Cost</b>	
At 1 July 2009	614,397
Additions	-
	<hr/>
At 30 June 2010	614,397
	<hr/>
<b>Amortisation</b>	
At 1 July 2009	153,600
Charged during the year	76,800
	<hr/>
At 30 June 2010	230,400
	<hr/>
<b>Net book value</b>	
<b>At 30 June 2010</b>	<b>£ 383,997</b>
	<hr/> <hr/>
At 30 June 2009	£ 460,797
	<hr/> <hr/>

Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired of EIG Holdings Group. This is stated at cost less amortisation.

### 8. Investments

#### (a) Financial investments (Group)

	2010 £	2009 £
Shares and variable yield securities and units in unit trusts	3,506,192	-
Deposits with credit institutions	1,999,187	-
	<hr/>	<hr/>
	<b>£ 5,505,379</b>	£ -
	<hr/> <hr/>	<hr/> <hr/>

The cost of investments at 30 June 2010 was £5,505,379 (2009: £Nil).

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Investments (*continued*)

#### (b) Investments in group undertakings (Company)

	2010 £	2009 £
Investment in EIG Holdings Limited	£ 2,000,000	£ 2,000,000

The investment represents 100% of the ordinary shares in EIG Holdings Limited, a company registered in Gibraltar.

	<i>Country of incorporation</i>	<i>Percentage held by the Company</i>	<i>Cost of the investments £</i>	<i>Capital and reserves £</i>	<i>Profit &amp; loss £</i>
EIG Holdings Limited	Gibraltar	100%	2,000,000	3,031,652	1,080,477

This information is based on the subsidiary company's latest audited accounts as at 30 June 2010.

#### Indirect holdings

<i>Company</i>	<i>Country of incorporation</i>	<i>Percentage held by the Company</i>	<i>Cost of the investments £</i>	<i>Capital and reserves £</i>	<i>Profit &amp; loss £</i>
Enterprise Insurance Company Plc (EICP)	Gibraltar	<b>99.99%</b> (2009: 98.38%)	<b>4,050,000</b> (2009: 3,050,000)	<b>5,175,846</b> (2009: 3,204,747)	<b>1,096,098</b> (2009: 931,334)
EIG Services Limited	Gibraltar	<b>100%</b> (2009: 100%)	<b>11,000</b> (2009: 11,000)	<b>2,075,841</b> (2009: 1,375,156)	<b>1,700,685</b> (2009: 1,072,968)
Quality Rating Limited (QRL)	United Kingdom	<b>100%</b> (2009: 100%)	<b>150,000</b> (2009: 150,000)	<b>60,625</b> (2009: 61,419)	<b>(794)</b> (2009: -2,828)
Call 4 (Gibraltar) Limited	Gibraltar	<b>100%</b> (2009: 100%)	<b>1,000</b> (2009: 1,000)	<b>11,337</b> (2009: 13,458)	<b>(2,121)</b> (2009: -15,142)
Jelly Holdings Limited	Gibraltar	<b>100%</b> (2009: 100%)	<b>100</b> (2009: 100)	<b>(1,845)</b> (2009: 100)	<b>(1,945)</b> (2009: £nil)

£ 4,212,100

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Tangible fixed assets

	Computer equipment £	Office equipment £	Total £
<b>Cost</b>			
At 1 July 2009	731,766	21,340	753,106
Additions during period	65,691	-	65,691
Disposals	-	-	-
	-----	-----	-----
At 30 June 2010	<b>797,457</b>	21,340	818,797
	=====	=====	=====
<b>Depreciation</b>			
At 1 July 2009	641,594	21,163	662,757
Charge for the period	60,450	177	60,627
Eliminated on disposals	-	-	-
	-----	-----	-----
At 30 June 2010	702,044	21,340	723,384
	=====	=====	=====
<b>Net book value</b>			
At 30 June 2010	<b>95,413</b>	-	<b>95,413</b>
	=====	=====	=====
At 30 June 2009	90,172	177	90,349
	=====	=====	=====

### 10. Called up share capital

	2010 £	2009 £
<b>Authorised:</b>		
1,000 ordinary shares of £1 each	<b>1,000</b>	1,000
1,000 non cumulative redeemable preference shares of £1 each	<b>1,000</b>	1,000
	-----	-----
	<b>£ 2,000</b>	£ 2,000
	=====	=====
<b>Share capital allotted, called up and fully paid:</b>		
500 ordinary shares of £1 each	<b>500</b>	500
200 non cumulative redeemable preference shares of £1 each	<b>200</b>	200
	-----	-----
	<b>£ 700</b>	£ 700
	=====	=====

The redeemable preference shares are non-cumulative, non-voting, participating redeemable shares which can be redeemed only at the option of the Company.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 11. Reconciliation of shareholders funds and movements in reserves

#### Group

	Share Capital £	Share Premium account £	Profit and loss account £	Total £
Balance at 1 July 2009	700	699,550	1,648,611	2,348,861
Profit for the period	-	-	2,752,530	2,752,530
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2010	<b>£ 700</b>	<b>699,550</b>	<b>4,401,141</b>	<b>5,101,391</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The share premium relates to 200 redeemable preference shares of £1 each issued at a premium of £3,497.75 each.

#### Company

	Share Capital £	Share Premium account £	Profit and loss account £	Total £
Balance at 1 July 2009	700	699,550	(30,142)	670,108
Loss for the year	-	-	(43,070)	(43,070)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2010	<b>£ 700</b>	<b>699,550</b>	<b>(73,212)</b>	<b>(627,038)</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 12. Amounts due to financial institutions

	2010 £	2009 £
Overdraft	-	27,747
Bank loans	-	888,889
	<hr/>	<hr/>
	£ -	£ 916,636
	<hr/> <hr/>	<hr/> <hr/>
<i>Bank loans:</i>		
Amounts falling due within one year	-	333,333
Amounts falling due between one and five years	-	555,556
	<hr/>	<hr/>
	£ -	£ 888,889
	<hr/> <hr/>	<hr/> <hr/>

Bank loans included a bank loan with Coutts and Co. The loan was secured against the assets of the EIG Holdings Limited coupled with a Joint and Several Guarantee for £1,000,000 by the beneficial owners. During the year, the loan was repaid in full.

### 13. Other creditors including taxation and social security costs

	2010 £	2009 £
Trade creditors	1,021,439	398,171
Insurance premium tax	1,520,594	761,851
Taxation and social security costs	50,827	67,692
Rhone Holdings Limited loan	700,000	-
Varanidae Holdings Limited loan	-	95,008
Shareholders' loan	-	111,600
Amounts owed to Cabor Trustees	-	650,000
Sundry creditors	553,898	51,733
	<hr/>	<hr/>
	£ 3,846,758	£ 2,136,055
	<hr/> <hr/>	<hr/> <hr/>

During the year, the loan from Varanidae Holdings Limited was repaid in full and the shareholders' loan was written off.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 14. (i) Reconciliation of loss to net operating cashflows

	2010 £	2009 £
Profit before taxation and minority interest	2,748,519	1,824,270
Adjustments for:		
Depreciation	60,627	139,469
Amortisation of goodwill	76,800	76,800
Increase in debtors and prepayments	(3,494,315)	(7,088,007)
Increase in net technical provisions	5,797,158	5,457,275
Increase in creditors and accruals and deferred income	2,659,453	102,591
Decrease in minority interest	(124,999)	-
Interest receivable	(1,371)	(19,285)
Interest expense	29,862	61,202
	<hr/>	<hr/>
Net cash inflow from operating activities	£ 7,751,734	£ 554,315
	<hr/> <hr/>	<hr/> <hr/>

### (ii) Movement in opening and closing portfolio investments net of financing:

	2009 £	Cash flows for the year £	2010 £
Cash at bank and in hand	1,910,212	1,234,187	3,144,399
Financial investments	-	5,505,379	5,505,379
Bank loans and overdrafts	(916,636)	916,636	-
	<hr/>	<hr/>	<hr/>
	£ 993,576	7,656,202	8,649,778
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Segmental reporting

	2010				
	Motor £	Fire and other damage to property £	Legal expense £	Miscellaneous £	Total £
Gross written premiums	4,235,701	1,391,892	6,490,527	8,855,741	20,973,861
Gross earned premiums	1,787,550	607,173	6,484,965	7,142,830	16,022,518
Gross claims incurred	942,987	418,093	1,309,947	5,044,484	7,715,511
Gross operating expenses	862,051	219,482	1,799,387	1,603,685	4,484,605
Reinsurance balance	524,176	(76,813)	(6,820)	-	440,543

Premiums written for direct insurance business total £20,660,658 and for reinsurance business £313,203, and have been concluded by the Group in Gibraltar.

	2009			
	Fire and other damage to property £	Legal expense £	Miscellaneous £	Total £
Gross written premiums	32,308	2,372,282	7,351,339	9,755,929
Gross earned premiums	32,308	2,372,282	2,084,870	4,489,460
Gross claims incurred	12,685	894,392	194,905	1,101,982
Gross operating expenses	10,175	458,129	59,483	527,787
Reinsurance balance	£ -	146,903	-	146,903

In 2009, all business related to risks located in the United Kingdom and all contracts were concluded in Gibraltar. See note 2 for details of reinsurance business inwards.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### 16. Related party transactions

Significant transactions during the year and balances at the end of the year with related parties that require disclosure in accordance with Financial Reporting Standard No. 8 were as follows:

	Expenses		Amounts due to parties	
	2010 £	2009 £	2010 £	2009 £
Varanidae Holdings Limited	2,364	16,836	-	95,008
Shareholders loan	-	-	-	111,600
Cabor Trustees Limited	2,992	13,019	-	650,000
Rhone Holdings Limited	9,577	-	709,577	-
Acquarius Company Secretaries Limited	900	-	-	-
Cruz & Co	38,875	-	-	-
Martinez and Partners	107,907	-	626	-

The amount due to Cabor Trustees Limited was repaid on January 2011.

The amount for Rhone Holdings Limited includes £9,577 accrued interest included in accruals and deferred income account.

The entities above are considered related parties since they are under common ownership and/or have directors in common with this company, who exercise influence over the financial and operating policies of the company.

### 17. Future rental commitments under operating leases

EICP has annual commitments under non-cancellable operating leases on property, expiring on 14 June 2015. For the period to 30 June 2010 the annual commitment was £52,000. From 1 July 2010, the annual commitment is £64,248. For the residue of the lease period the rent will be determined in accordance with the provisions of the lease agreement.

QRL has annual commitments under non-cancellable operating lease with £19,800 due within one year and £13,004 due within two to five years.

### 18. Charge against assets

The balances held in EICP's books on various accounts with Hampshire Trust PLC amounting to £3,251 have been charged to Hampshire Trust PLC. No liability to Hampshire Trust PLC greater than the balances held with Hampshire Trust PLC exists.

### 19. Ultimate controlling party

The immediate parent undertaking and ultimate controlling company is Acquarius Trust Company Limited, a trust company registered in Gibraltar.