



**INTERIM REPORT AND FINANCIAL STATEMENTS**  
**RANDALL & QUILTER INVESTMENT HOLDINGS PLC**  
**30 JUNE 2009**

The Company's registration number is 03671097

**R&Q**

# Financial Statements

For the six months ended 30 June 2009

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## Directors and Advisers



Directors from left to right and back to front

M G Smith, K P McNamara, J M P Welman  
K E Randall, A K Quilter

### Secretary

M L Glover

### Registered Office

9-13 Fenchurch Buildings  
London  
EC3M 5HR

### Bankers

National Westminster  
Bank plc  
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PO Box 12258  
1 Princes Street  
London  
EC2R 8PA

### Auditors

Littlejohn LLP  
1 Westferry Circus  
Canary Wharf  
London  
E14 4HD

### Registered Number

03671097

# Highlights and Summary of Results

**For the six months ended 30 June 2009**

**Interim profit before tax of £1.2m (2008: £4.4m) despite a £2.7m unrealised investment loss on perpetuals and £2.0m legal costs of litigation with Equitas**

**Further development of broker run-off with acquisition of RK Carvill subsidiaries in London and USA**

**Acquisition of a controlling interest in a US insurer agreed subject to regulatory approval**

**Expansion into captive run-off with acquisition of Woolworths Insurance (Guernsey) Limited**

**Interim dividend declared of 2.8p per share (2008: 7.0p per share for the full year) payable on 7 October**

## Financial Results

	6 months ended 30 June 2009	6 months ended 30 June 2008	6 months ended 31 Dec 2008
<b>Group Results</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Operating profit	1,235	4,474	8,847
Profit on ordinary activities before income taxes	1,157	4,420	8,763
(Loss) / Profit after tax	(952)	2,640	6,017
Total net assets	75,639	76,504	80,858

# Chairman's Statement and Business Review

For the six months ended 30 June 2009

**The operating profit for the period was £1.2m (2008 £4.5m) before tax.**

**As highlighted in my statement which accompanied the publication of the 2008 results, our operating profits have been adversely impacted by falling investment returns on our insurance company portfolios.**

**In particular, these interim results include an unrealised market value reduction of approximately £2.7m in respect of our holdings of subordinated bank debt issued by National Westminster Bank, Societe Generale and Bank of Scotland. During the half year we also incurred legal costs of approximately £2m in relation to the litigation between R&Q Re (UK) Limited and Equitas.**



Our strategy of operating three complimentary but distinct pillars of business continues to prove its worth, allowing us to focus resources and management effort where it is most productive according to market conditions. The Insurance Services Division ("ISD") increased pre-tax profits to £2.4m (2008 £2.2m). This balanced the performance of

the Insurance Company Division ("ICD"), where a solid performance overall was eroded by the litigation costs and investment performance. The ICD produced a pre-tax profit of £0.4m (2008 £3.8m), after taking into account the legal expenses incurred in the Equitas dispute and the unrealised loss on the subordinated bank debt.

The breakdown of the operating result by division is as follows:-

	6 months to 30 June 2009	6 months to 30 June 2008
	£m	£m
Insurance Company Division	0.4	3.8
Insurance Services Division	2.4	2.2
Liquidity Management Division	(0.1)	-
Other Group Items	(1.5)	(1.5)
<b>Total Group</b>	<b>1.2</b>	<b>4.5</b>

*\*Other Group items primarily relates to the parent company.*

# Chairman's Statement and Business Review

For the six months ended 30 June 2009

## Tax

The Group's tax charge for the six months ended 30 June 2009 was £2.1m (2008: £1.8m). This charge has arisen as a result of significant profits being generated by R&Q Reinsurance in the US, which can not be offset against taxable losses in the UK.

The post tax loss for the 6 month period was therefore £0.9m.

## Dividend

In line with the policy announced in the 2008 Annual Financial Statements, we will be paying an interim dividend of 2.8p per share. Under the policy this represents 40% of the expected annual dividend (2008 full year dividend: 7.0p per share). This interim dividend is payable on 7 October 2009 to shareholders on the register on 11 September 2009.

## INSURANCE COMPANY DIVISION (ICD)

Overall, the Group's insurance subsidiaries performed well and generated a small operating profit of £0.4m (2008: £3.8m profit), despite the reduced investment income and legal costs previously mentioned.

In May we acquired Woolworths Insurance (Guernsey) Limited ("WIGL") from the administrators of the Woolworths Group. WIGL was the Guernsey based captive insurer for Woolworths and this acquisition represents a first step into the legacy captive sector. This is a small, but strategic acquisition for us. By combining our traditional legacy skills with the captive management services of the Quest Group, acquired at the end of 2008, we anticipate further expansion into the captive sector.

The investment return is a key component of the ICD performance and the return for the six months to 30 June 2009 was 1.35% generating £3.5m (2008: 1.86% generating £5.4m).

The investment allocation (including surplus cash) at the period end is shown below:-

	June 2009	Dec 2008
	£m	£m
Government and government agencies	101.5	136.1
Corporate bonds	111.9	115.1
UK Subordinated bank debt	6.7	9.4
Equities	2.9	1.0
Cash based investment funds	26.8	27.8
Cash and cash equivalents	41.5	40.4
	291.3	329.8

	%	%
Government and government agencies	34.9	41.3
Corporate bonds	38.4	34.9
UK Subordinated bank debt	2.3	2.9
Equities	1.0	0.3
Cash based investment funds	9.2	8.4
Cash and cash equivalents	14.2	12.2
	100.0	100.0

\*Excluding Deposits with ceding undertakings

# Chairman's Statement and Business Review

For the six months ended 30 June 2009

## **INSURANCE COMPANY DIVISION (ICD) (Continued)**

The investment policy of the Group is to take a cautious approach and to invest in fixed interest government and agency securities, high grade corporate bonds, cash and a small percentage in equities. In addition, insurance liabilities are broadly matched in original currencies. Our policy is to adjust the carrying value of all investments to their market value at the end of each accounting period.

However, investment returns have been much reduced by recent turbulence in the financial markets. As a consequence, we have been working with external advisers to confirm that our investment strategy and appointed external investment advisers remain appropriate. We are obviously disappointed by the significant fall in market value of the subordinated bank debt. At the beginning of the year, our UK insurance companies held £9.4m (market value) of these securities. Concerns in the market over possible major bank defaults or nationalisations, particularly in relation to Royal Bank of Scotland and HBOS resulted in a collapse in market values in the first half but there has been a significant recovery since, with the value of our holdings rising by £1.3m in the 2 months to 31 August. The Board has decided to continue holding these investments until they reach maturity and/or are redeemed by the banks. We expect subsequent accounting periods to reap the benefits of the impact of the improving market sentiment on the value of these securities.

Overall the Group's owned insurance companies continue to operate in line with their business plans. The key issues beyond the investment return are as follows:-

### **R&Q Re (US)**

We have undertaken a major exercise, which is now largely completed, to improve our understanding and control of this large reinsurance portfolio. As a result, we have greater confidence in our reserving methodology and this has enabled a release of a centrally held claims provision of £5.6m (net of an associated bad debt adjustment) at 30 June 2009.

We are also well advanced in preparing for the conversion of the company's records to the ISIS system, the R&Q owned run-off platform, from the systems inherited from ACE in 2006. Final data conversion is timetabled for completion before year end. This will bring significant operational benefits including better management of the substantial reinsurance asset.

## **Transport Insurance Company**

In the 2008 annual report I reported on the Aerojet reinsurance dispute which was lost following a jury trial in California. Transport has appealed this decision, having been advised that it had been based on a judicial error in the Jury instructions.

The appeal briefs have now been filed with the California courts of appeal and we anticipate the case will be heard towards the end of 2009 or in early 2010. The Group accounts attribute no value to the amount in dispute which totals more than \$15m including interest. A successful outcome would therefore benefit the Group, with downside limited to the legal costs incurred in relation to the appeal.

## **R&Q Re (UK) Limited**

As previously reported, the major issue for this company has been the ongoing dispute with Equitas involving literally thousands of reinsurance claims arising out of the Exxon Valdez oil spill and the first Gulf war of 1991. The vast majority of these claims are the subject of arbitration but a limited number are being litigated in the English High Court. The first stage of the trial took place in June but, due to the Summer Court recess, the judgment has been held over until September at the earliest. The cost burden of the case has been significant with £2m being incurred during the half year to 30 June. It is difficult to quantify the financial consequences at this stage; a positive result for R&Q Re UK would allow a reduction in claims reserves; an adverse verdict would result in additional claims payable by R&Q Re UK. Whilst potentially significant, the net impact of an adverse verdict could, however, be mitigated if the court awards a "discount" factor which would also allow R&Q Re UK to counterclaim for refunds of substantial amounts already paid to Equitas.

## **INSURANCE SERVICES DIVISION (ISD)**

The division has increased its operating profit to £2.4m (2008: £2.2m) with positive contributions from new acquisitions, KMS and the Quest Group of Companies.

We continue to secure further assignments from third parties despite the market for run-off servicing being relatively quiet at the present time. Two developments in 2009 are the new contract to manage Syndicate 3330 for the Advent Group and the management of WIGL. Syndicate 3330 takes us into an important new market as our first RITC Syndicate.

# Chairman's Statement and Business Review

For the six months ended 30 June 2009

The open years of Advent Syndicate 2 at Lloyd's were closed by Reinsurance to Close into a new Syndicate 3330, the capital for which is wholly provided by the Advent Group. The managing agency for the new Syndicate is our group owned Lloyd's managing agency, Cavell Managing Agency Limited. During the period ISD has also assumed day to day management of WIGL, the Group acquired captive.

At the last year end, I expressed my optimism for developing our broker replacement service. I was, therefore, delighted to announce, outside the period, that following an extensive tender process, we were selected as the preferred acquirer of RK Carvill & Co Ltd, Carvill America Inc and Syndicated Services Company Inc, all of which are now in run-off. Carvill has been a highly regarded specialist insurance broker and the decision of its founder, Rory Carvill, to place his insurance broking business into run-off surprised many in the market. I am delighted that R&Q has been selected as the acquirer of these companies. This transaction, which is estimated to complete by 30 September, will give enormous market credibility to our broker service offering and, I hope, will serve as a springboard for further development of this area of our business. The acquisition of the Carvill companies is expected to provide a modest boost to the Group profit in 2009.

## LIQUIDITY MANAGEMENT DIVISION

In the first six months of 2009, Reinsurance Finance Management Limited ("RFML") has continued to target portfolios of reinsurance debt for acquisition and to service its clients in collecting and commuting reinsurance. The pace of realisations is expected to increase in the second half of this year, leading to a positive result overall.

The debt acquisition strategy remains focussed on the purchase of residual debt owed by specific reinsurance companies. RFML is actively commuting the residual debt of its acquired Middle Eastern reinsurance portfolio and bought further debt positions in 2009. The division continues to review and make offers to acquire both insolvent and residual debt without compromising its profitable rate of return.

RFML also provides bespoke reinsurance recovery services on a contingency basis for third party clients. In addition to a small number of significant insolvent insurance estates, RFML has developed new collections services on behalf of clients based in Continental Europe. Such initiatives have also created debt acquisition opportunities.

## Litigation

The long running case alleging fraudulent misrepresentation and concealment (as these terms are defined in the USA) against Cavell USA, Inc, a wholly owned subsidiary, and me, personally, by Seaton Insurance Company and Stonewall Insurance company continues. We have previously announced that the New York Court dismissed their claim, although Seaton and Stonewall have appealed. Following a hearing of preliminary issues in our claim in England, the English Commercial Court found that Seaton and Stonewall had breached a settlement agreement by filing the New York proceedings. Seaton and Stonewall have been given permission to appeal this decision and a hearing will take place in the Court of Appeal in December 2009. Seaton and Stonewall have been ordered to pay our costs of the English action and have also been required to pay substantial sums into court in respect of our damages claim. No credit has been taken in these financial statements in respect of such damages and costs awarded. Our position remains unchanged, that the claims are without merit.

# Chairman's Statement and Business Review

For the six months ended 30 June 2009

## Outlook

We continue to seek out acquisition opportunities and have been successful with the purchase of WIGL and a US domiciled insurer where we have entered into a stock purchase agreement in respect of a controlling interest, subject to obtaining regulatory approval for the change of control. We have also agreed terms for the acquisition of the minority interest, which will be consummated once regulatory approval has been obtained. The acquisitions of WIGL and the US insurance company have both been negotiated on terms which meet our pricing criteria. However, the market remains competitive, as evidenced by recent announcements regarding Copenhagen Re and Alea UK, where disposals have been announced at close to net asset value, which is some way ahead of our valuations.

There is some evidence of reduced funding from the major banks to provide leverage for such transactions and we await to see whether prices will fall in consequence. Meanwhile, we continue to pursue the acquisition of smaller insurers in run-off. We are well placed to take advantage of appropriate acquisition opportunities with approximately £25m of debt available from existing facilities.

We have identified further debt acquisition opportunities and our broker run-off team is well placed to absorb more business following the Carvill acquisition.

We also see significant potential to expand our Lloyd's business and we are currently examining a number of initiatives to increase both the scale and breadth of our involvement with the Lloyd's market.

I expect investment returns to remain depressed for the foreseeable future although the rebound in the valuations of our holdings of subordinated bank debt following recent market stabilisation is encouraging. Investment duration is being kept very short in order to protect capital values when interest rates do start to climb.

Whilst we broadly aim to match claims reserves with investments held in the same currency, the Group has significant net assets in our US subsidiaries denominated in US\$. We have purchased a currency hedge to provide a measure of protection if the £/US\$ rate moves above 1.80.

The capital markets have been through difficult times and this has adversely impacted our results in the first half year. Nevertheless we have still managed to achieve a modest pre-tax profit. I expect results to improve in the second half of the year subject to investment markets and the outcome of the Equitas litigation referred to above. I remain confident of our ability to expand further in each segment of our business in the months ahead and to develop new avenues for growth.



**K E Randall**

Chairman and Chief Executive Officer

2 September 2009

# Condensed Consolidated Income Statement

For the six months ended 30 June 2009

		6 months 30 June 2009 £000	6 months 30 June 2008 £000	Year ended 31 Dec 2008 £000
Gross premiums written		379	424	642
Reinsurers' share of gross premiums		(112)	188	284
<b>Earned premium net of reinsurance</b>		<b>267</b>	<b>612</b>	<b>926</b>
Net investment income	4	3,624	5,418	12,036
Other income		6,702	4,530	9,560
		<b>10,326</b>	<b>9,948</b>	<b>21,596</b>
<b>Total income</b>	<b>3</b>	<b>10,593</b>	<b>10,560</b>	<b>22,522</b>
Gross claims paid		(24,157)	(25,112)	(45,263)
Reinsurers' share of gross claims paid		13,780	15,414	25,718
Claims paid, net of reinsurance		(10,377)	(9,698)	(19,545)
Movement in gross technical provision		20,910	28,756	50,367
Movement in reinsurers' share of technical provisions		(7,791)	(14,430)	(22,565)
Net change in provision for claims		13,119	14,326	27,802
<b>Net insurance claims released</b>		<b>2,742</b>	<b>4,628</b>	<b>8,257</b>
<b>Operating expenses</b>		<b>(12,417)</b>	<b>(10,647)</b>	<b>(21,831)</b>
<b>Result of operating activities before negative goodwill and impairment of intangible assets</b>	<b>3</b>	<b>918</b>	<b>4,541</b>	<b>8,948</b>
Negative goodwill	13	382	-	-
Impairment of intangible assets		(65)	(67)	(101)
<b>Result of operating activities</b>		<b>1,235</b>	<b>4,474</b>	<b>8,847</b>
Finance costs		(78)	(54)	(84)
<b>Profit on ordinary activities before income taxes</b>		<b>1,157</b>	<b>4,420</b>	<b>8,763</b>
Income tax charge	5	(2,109)	(1,780)	(2,746)
<b>(Loss)/Profit for the period</b>	<b>3</b>	<b>(952)</b>	<b>2,640</b>	<b>6,017</b>
<b>Attributable to equity holders of the parent</b>				
Attributable to ordinary shareholders		(952)	2,640	6,017
Minority interests		-	-	-
		<b>(952)</b>	<b>2,640</b>	<b>6,017</b>
Earnings per ordinary share for the (loss)/profit attributable to the ordinary shareholders of the Company:-				
Basic	7	(1.7)p	4.7p	10.8p
Diluted		(1.7)p	4.6p	10.5p

The attached notes are an integral part of these condensed consolidated financial statements.

# Condensed Consolidated Statement of Financial Position

As at 30 June 2009

	30 June 2009 £000	30 June 2008 £000	31 Dec 2008 £000
<b>Assets</b>			
Intangible assets	17,557	12,215	17,557
Property, plant and equipment	345	273	304
Investment properties	1,035	1,209	1,336
Financial assets	227,032	213,090	266,424
Reinsurers' share of insurance liabilities	6 256,382	226,230	297,650
Current tax assets	94	1	2,845
Deferred tax asset	1,236	5,159	3,030
Insurance and other receivables	32,028	36,094	34,158
Cash and cash equivalents	68,346	57,873	68,189
<b>Total assets</b>	<b>604,055</b>	<b>552,144</b>	<b>691,493</b>
<b>Liabilities</b>			
Insurance contract provisions	6 492,985	439,995	571,190
Financial liabilities	9,509	5,003	10,365
Deferred tax liabilities	1,545	3,382	2,586
Insurance and other payables	8 24,137	27,260	26,438
Current tax liabilities	240	-	56
<b>Total liabilities</b>	<b>528,416</b>	<b>475,640</b>	<b>610,635</b>
<b>Equity</b>			
Share capital	10 1,118	1,118	1,118
Other Reserves	11 15,889	17,405	16,208
Retained earnings	58,632	57,981	63,532
<b>Attributable to equity holders of the parent</b>	<b>75,639</b>	<b>76,504</b>	<b>80,858</b>
Minority interests in subsidiary undertakings	-	-	-
<b>Total equity</b>	<b>75,639</b>	<b>76,504</b>	<b>80,858</b>
<b>Total liabilities and equity</b>	<b>604,055</b>	<b>552,144</b>	<b>691,493</b>

Approved by the Board on 2 September 2009.



**K E Randall**



**A K Quilter**

The attached notes form an integral part of these condensed consolidated financial statements.

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009

	6 months 30 June 2009 £000	6 months 30 June 2008 £000	Year ended 31 Dec 2008 £000
<b>Net cash from/(used in) operating activities</b>	<b>2,397</b>	<b>(399)</b>	<b>2,200</b>
Proceeds from sale of property, plant & equipment	-	-	12
Purchase of property, plant and equipment	(136)	(160)	(212)
Acquisition of subsidiary undertakings (net of cash acquired)	3,716	-	(5,634)
Purchase of minority interest in subsidiary undertakings	-	-	(33)
<b>Net cash from/(used in) investing activities</b>	<b>3,580</b>	<b>(160)</b>	<b>(5,867)</b>
Repayment of borrowings	(289)	-	-
New borrowing arrangements	675	-	4,613
Equity dividends paid	(1,230)	-	(2,684)
Interest and other finance costs paid	(78)	(54)	(84)
Receipts from issue of shares	-	4	4
Purchase of treasury shares	(319)	-	(1,197)
<b>Net cash (used in)/from financing activities</b>	<b>(1,241)</b>	<b>(50)</b>	<b>652</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>4,736</b>	<b>(609)</b>	<b>(3,015)</b>
Cash and cash equivalents at beginning of period	68,189	57,681	57,681
Foreign exchange movement on cash and cash equivalents	(4,579)	801	13,523
<b>Cash and cash equivalents at end of period</b>	<b>68,346</b>	<b>57,873</b>	<b>68,189</b>

The attached notes are an integral part of these condensed consolidated financial statements.

# Other Statements

## Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2009

	6 months 30 June 2009 £000	6 months 30 June 2008 £000	Year ended 31 Dec 2008 £000
<b>Recognised in the financial period:-</b>			
Exchange (losses)/gains on consolidation	(2,682)	(689)	4,163
Pension scheme actuarial losses	(50)	(206)	(197)
Deferred tax on pension scheme actuarial losses	14	59	56
<b>Net expense recognised directly in equity</b>	<b>(2,718)</b>	<b>(836)</b>	<b>4,022</b>
(Loss)/profit for the period	(952)	2,640	6,017
<b>Total comprehensive income for the period</b>	<b>(3,670)</b>	<b>1,804</b>	<b>10,039</b>
<b>Attributable to:-</b>			
Equity holders of the parent	(3,670)	1,804	10,039
Minority interests	-	-	-
<b>Total recognised in the period</b>	<b>(3,670)</b>	<b>1,804</b>	<b>10,039</b>

## Condensed consolidated statement of changes in equity

For the six months ended 30 June 2009

	6 months 30 June 2009 £000	6 months 30 June 2008 £000	Year ended 31 Dec 2008 £000
Balance at 1 January	80,858	74,696	74,696
Total comprehensive income for the period	(3,670)	1,804	10,039
Treasury shares	(319)	-	(1,197)
Dividends	(1,230)	-	(2,684)
Issue of shares	-	4	4
<b>Balance period end</b>	<b>75,639</b>	<b>76,504</b>	<b>80,858</b>

The attached notes are an integral part of these condensed consolidated financial statements.

# Notes to the interim financial statements

For the six months ended 30 June 2009

## 1. Basis of preparation

The condensed financial statements have been prepared using accounting policies consistent with International Financial Standards and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

The consolidated interim financial information for the 2009 and 2008 half years are unaudited, but has been subject to review by the Company's auditors. The financial information has been prepared in accordance with the accounting policies adopted for the year ended 31 December 2008.

The comparative figures for the 31 December 2008 are based upon the consolidated Group financial statements. These accounts have been reported on by the Company's auditors and have been delivered to the Registrar of Companies on 1 July 2009.

## 2. Significant accounting policies

The condensed financial statements have been prepared under the historical cost convention, except that financial assets are stated at their fair value.

The same accounting policies, presentation and methods of computation are followed in these condensed financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2008, except for the adoption of the new standards and interpretations as of 1 January 2009, noted below:-

**IFRS 7 Financial Instruments: Disclosures** The amended standard requires additional disclosure about fair value measurement and liquidity risk. As IFRS 7 is a disclosure standard, there is no impact of that change in accounting policy on the half year condensed consolidated financial statements.

**IFRS 8 Operating Segments** This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group.

**IAS 1 Revised Presentation of Financial Statements** The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements.

# Notes to the interim financial statements

For the six months ended 30 June 2009

## 3. Segmental information

The Group operates with following primary segments:-

- Insurance companies in run-off, which includes the acquired insurance companies of the group
- Insurance services, which provides insurance related services to both internal and external clients in the insurance market
- Liquidity management, which acquires reinsurance debt and provides reinsurance collection and commutation services
- Other corporate activities, which primarily includes the group holding company and other minor subsidiaries which fall outside of the segments above

### Segment result for the six months ended 30 June 2009

	Insurance run-off £000	Insurance services £000	Liquidity management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	267	-	-	-	-	267
Net investment income	3,530	34	-	60	-	3,624
Other external income	-	6,196	506	-	-	6,702
Other internal income	-	6,930	-	-	(6,930)	-
<b>Total income</b>	<b>3,797</b>	<b>13,160</b>	<b>506</b>	<b>60</b>	<b>(6,930)</b>	<b>10,593</b>
Claims paid, net of reinsurance	(10,377)	-	-	-	-	(10,377)
Net change in provision for claims	13,119	-	-	-	-	13,119
<b>Net insurance claims released</b>	<b>2,742</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,742</b>
Operating expenses	(6,510)	(10,748)	(602)	(1,487)	6,930	(12,417)
<b>Operating result before impairment of intangible assets</b>	<b>29</b>	<b>2,412</b>	<b>(96)</b>	<b>(1,427)</b>	<b>-</b>	<b>918</b>
Negative goodwill	382	-	-	-	-	382
Impairment of intangible assets	-	-	-	(65)	-	(65)
<b>Result of operating activities</b>	<b>411</b>	<b>2,412</b>	<b>(96)</b>	<b>(1,492)</b>	<b>-</b>	<b>1,235</b>
Finance costs	-	-	-	(78)	-	(78)
Management charges	-	(188)	-	188	-	-
<b>Profit/(loss) on ordinary activities before income taxes</b>	<b>411</b>	<b>2,224</b>	<b>(96)</b>	<b>(1,382)</b>	<b>-</b>	<b>1,157</b>
Income tax (charge)/credit	(2,126)	22	-	(5)	-	(2,109)
<b>Profit/(loss) for the period</b>	<b>(1,715)</b>	<b>2,246</b>	<b>(96)</b>	<b>(1,387)</b>	<b>-</b>	<b>(952)</b>
<b>Segment assets</b>	<b>579,448</b>	<b>20,048</b>	<b>972</b>	<b>47,731</b>	<b>(44,144)</b>	<b>604,055</b>
<b>Segment liabilities</b>	<b>518,648</b>	<b>14,142</b>	<b>662</b>	<b>18,925</b>	<b>(23,961)</b>	<b>528,416</b>

Internal income includes fees payable by the insurance companies to the insurance service division in the period, which are contractually committed on an arms length basis.

Included within the other external income of £6,702,000 is £3,123,000 in aggregate received from three clients, each of which generate more than 10% of the total external income.

# Notes to the interim financial statements

For the six months ended 30 June 2009

## Segment result for the six months ended 30 June 2008

	Insurance run-off £000	Insurance services £000	Liquidity management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	612	-	-	-	-	612
Net investment income	5,376	166	-	45	(169)	5,418
Other external income	-	4,245	282	3	-	4,530
Other internal income	-	6,529	-	-	(6,529)	-
<b>Total income</b>	<b>5,988</b>	<b>10,940</b>	<b>282</b>	<b>48</b>	<b>(6,698)</b>	<b>10,560</b>
Claims paid, net of reinsurance	(9,698)	-	-	-	-	(9,698)
Net change in provision for claims	14,326	-	-	-	-	14,326
<b>Net insurance claims released</b>	<b>4,628</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,628</b>
Operating expenses	(6,777)	(8,779)	(288)	(1,501)	6,698	(10,647)
<b>Operating result before impairment of intangible assets</b>	<b>3,839</b>	<b>2,161</b>	<b>(6)</b>	<b>(1,453)</b>	<b>-</b>	<b>4,541</b>
Impairment of intangible assets	-	-	-	(67)	-	(67)
<b>Result of operating activities</b>	<b>3,839</b>	<b>2,161</b>	<b>(6)</b>	<b>(1,520)</b>	<b>-</b>	<b>4,474</b>
Finance costs	-	-	-	(54)	-	(54)
Management charges	-	(169)	-	169	-	-
<b>Profit/(loss) on ordinary activities before income taxes</b>	<b>3,839</b>	<b>1,992</b>	<b>(6)</b>	<b>(1,405)</b>	<b>-</b>	<b>4,420</b>
Income tax (charge)/credit	(1,066)	(797)	-	83	-	(1,780)
<b>Profit/(loss) for the period</b>	<b>2,773</b>	<b>1,195</b>	<b>(6)</b>	<b>(1,322)</b>	<b>-</b>	<b>2,640</b>
<b>Segment assets</b>	<b>538,481</b>	<b>14,406</b>	<b>357</b>	<b>41,243</b>	<b>(42,343)</b>	<b>552,144</b>
<b>Segment liabilities</b>	<b>477,122</b>	<b>9,074</b>	<b>86</b>	<b>12,256</b>	<b>(22,898)</b>	<b>475,640</b>

Internal income includes fees payable by the insurance companies to the insurance service division in the period, which are contractually committed on an arms length basis.

Included within the other external income of £4,530,000 is £3,259,000 in aggregate received from three clients, each of which generate more than 10% of the total external income.

# Notes to the interim financial statements

For the six months ended 30 June 2009

## 3. Segmental information (continued)

### Segment result for the year ended 31 December 2008

	Insurance run-off £000	Insurance services £000	Liquidity management £000	Other corporate £000	Consolidation adjustments £000	Total £000
Earned premium net of reinsurance	926	-	-	-	-	926
Net investment income	11,210	606	7	213	-	12,036
Other external income	-	8,966	594	-	-	9,560
Other internal income	-	13,969	-	-	(13,969)	-
<b>Total income</b>	<b>12,136</b>	<b>23,541</b>	<b>601</b>	<b>213</b>	<b>(13,969)</b>	<b>22,522</b>
Claims paid, net of reinsurance	(19,545)	-	-	-	-	(19,545)
Net change in provision for claims	27,802	-	-	-	-	27,802
<b>Net insurance claims released</b>	<b>8,257</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,257</b>
Operating expenses	(13,023)	(18,345)	(468)	(3,964)	13,969	(21,831)
<b>Operating result before impairment of intangible assets</b>	<b>7,370</b>	<b>5,196</b>	<b>133</b>	<b>(3,751)</b>	<b>-</b>	<b>8,948</b>
Impairment of intangible assets	-	-	-	(101)	-	(101)
<b>Result of operating activities</b>	<b>7,370</b>	<b>5,196</b>	<b>133</b>	<b>(3,852)</b>	<b>-</b>	<b>8,847</b>
Finance costs	-	(1)	-	(83)	-	(84)
Management charges	-	(327)	-	327	-	-
<b>Profit on ordinary activities before income taxes</b>	<b>7,370</b>	<b>4,868</b>	<b>133</b>	<b>(3,608)</b>	<b>-</b>	<b>8,763</b>
Income tax (charge)/credit	(1,254)	(2,269)	-	777	-	(2,746)
<b>Profit for the year</b>	<b>6,116</b>	<b>2,599</b>	<b>133</b>	<b>(2,831)</b>	<b>-</b>	<b>6,017</b>
<b>Segment assets</b>	<b>665,658</b>	<b>11,479</b>	<b>885</b>	<b>55,164</b>	<b>(41,693)</b>	<b>691,493</b>
<b>Segment liabilities</b>	<b>601,277</b>	<b>7,321</b>	<b>479</b>	<b>23,244</b>	<b>(21,686)</b>	<b>610,635</b>

Internal income includes fees payable by the insurance companies to the insurance service division in the period, which are contractually committed on an arms length basis.

Included within the other external income of £9,560,000 is £6,590,000 in aggregate received from three clients, each of which generate more than 10% of the total external income.

# Notes to the interim financial statements

For the six months ended 30 June 2009

## Geographical analysis

As at 30 June 2009

	UK £000	United States & Bermuda £000	Europe £000	Total £000
Gross assets	233,634	394,043	20,522	648,199
Intercompany eliminations	(43,322)	(816)	(6)	(44,144)
Segment assets	<u>190,312</u>	<u>393,227</u>	<u>20,516</u>	<u>604,055</u>
Gross liabilities	166,377	368,292	17,708	552,377
Intercompany eliminations	(18,363)	(4,281)	(1,317)	(23,961)
Segment liabilities	<u>148,014</u>	<u>364,011</u>	<u>16,391</u>	<u>528,416</u>
Other income external	5,163	1,539	-	6,702
Other income internal	5,976	954	-	6,930
	<u>11,139</u>	<u>2,493</u>	<u>-</u>	<u>13,632</u>

As at 30 June 2008

	UK £000	United States & Bermuda £000	Europe £000	Total £000
Gross assets	219,115	342,668	21,259	583,042
Intercompany eliminations	(29,118)	(1,780)	-	(30,898)
Segment assets	<u>189,997</u>	<u>340,888</u>	<u>21,259</u>	<u>552,144</u>
Gross liabilities	171,965	312,594	21,979	506,538
Intercompany eliminations	(26,372)	(2,476)	(2,050)	(30,898)
Segment liabilities	<u>145,593</u>	<u>310,118</u>	<u>19,929</u>	<u>475,640</u>
Other income external	4,356	174	-	4,530
Other income internal	5,605	924	-	6,529
	<u>9,961</u>	<u>1,098</u>	<u>-</u>	<u>11,059</u>

As at 31 December 2008

	UK £000	United States & Bermuda £000	Europe £000	Total £000
Gross assets	244,604	464,606	23,976	733,186
Intercompany eliminations	(38,426)	(3,263)	(4)	(41,693)
Segment assets	<u>206,178</u>	<u>461,343</u>	<u>23,972</u>	<u>691,493</u>
Gross liabilities	172,149	439,406	20,766	632,321
Intercompany eliminations	(12,697)	(7,512)	(1,477)	(21,686)
Segment liabilities	<u>159,452</u>	<u>431,894</u>	<u>19,289</u>	<u>610,635</u>
Other income external	9,454	106	-	9,560
Other income internal	11,624	2,345	-	13,969
	<u>21,078</u>	<u>2,451</u>	<u>-</u>	<u>23,529</u>

# Notes to the interim financial statements

For the six months ended 30 June 2009

## 3. Segmental information (continued)

### Other information

As at 30 June 2009

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Capital expenditure	9	127	-	-	136
Depreciation	9	69	-	-	78

As at 30 June 2008

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Capital expenditure	13	147	-	-	160
Depreciation	6	77	-	-	83

As at 31 December 2008

	Insurance companies in run-off £000	Insurance services £000	Other corporate services £000	Eliminations £000	Total £000
Assets acquired through business combination	-	39	-	-	39
Capital expenditure	12	200	-	-	212
Depreciation	12	150	-	-	162

## 4. Investment return

	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Cash and cash equivalents interest income	5,598	6,094	13,514
Realised gains on investments	1,058	1,670	1,250
Unrealised losses on investments	(2,815)	(2,146)	(2,252)
Investment management expenses	(217)	(200)	(476)
	3,624	5,418	12,036

# Notes to the interim financial statements

For the six months ended 30 June 2009

## 5. Income tax

	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Current tax	(1,342)	(2,536)	(2,157)
Deferred tax	<u>(767)</u>	<u>756</u>	<u>(589)</u>
	<u>(2,109)</u>	<u>(1,780)</u>	<u>(2,746)</u>

The current tax charge largely results from profits in R&Q Re (US), where the Group is in part unable to obtain tax relief through brought forward losses.

## 6. Technical provisions

Gross	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Claims outstanding at 1 January	571,190	466,382	466,382
Claims paid	(24,157)	(25,112)	(45,263)
Increase arising from acquisition of subsidiary (Strengthening)/release of reserves	6,639	-	-
	3,247	(3,644)	(5,104)
Net exchange differences	<u>(63,934)</u>	<u>2,369</u>	<u>155,175</u>
As at period end	<u>492,985</u>	<u>439,995</u>	<u>571,190</u>

Reinsurance	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Reinsurers share of claims outstanding at 1 January	297,650	239,681	239,681
Reinsurers share of gross claims paid	(13,780)	(15,414)	(25,718)
Increase arising from acquisition of subsidiary	-	-	-
Strengthening of reserves	5,986	984	3,153
Net exchange differences	<u>(33,474)</u>	<u>979</u>	<u>80,534</u>
As at period end	<u>256,382</u>	<u>226,230</u>	<u>297,650</u>

Net	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Net claims outstanding at 1 January	273,540	226,701	226,701
Net claims paid	(10,377)	(9,698)	(19,545)
Increase arising from acquisition of subsidiary	6,639	-	-
Release of reserves	(2,739)	(4,628)	(8,257)
Net exchange differences	<u>(30,460)</u>	<u>1,390</u>	<u>74,641</u>
As at period end	<u>236,603</u>	<u>213,765</u>	<u>273,540</u>

Significant uncertainty exists as to the likely outcome of any particular claim and the ultimate costs of completing the run off of the Group's insurance operations.

The reserves carried by the Group are calculated using a variety of actuarial techniques. The reserves are calculated and reviewed by the Group's internal actuarial team; in addition the Group periodically commissions independent external actuarial reviews. The use of external advisors provides management with additional comfort that the Groups internally produced statistics and trends are consistent with observable market information and other published data.

# Notes to the interim financial statements

For the six months ended 30 June 2009

## 7. Earnings per share

	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
(Loss)/Profit for the period attributable to Ordinary shareholders	<u>(952)</u>	<u>2,640</u>	<u>6,017</u>
	No. 000's	No. 000's	No. 000's
Weighted average number of Ordinary shares	55,892	55,909	55,893
Effect of dilutive share options	<u>1,078</u>	<u>1,420</u>	<u>1,507</u>
Weighted average number of Ordinary shares for the purposes of diluted earnings per share	<u>56,970</u>	<u>57,329</u>	<u>57,400</u>
Basic earnings per share	(1.7)p	4.7p	10.8p
Diluted earning per share	(1.7)p	4.6p	10.5p

## 8. Insurance and other payables

	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Structured liabilities	354,621	294,000	403,534
Structured settlements	<u>(354,621)</u>	<u>(294,000)</u>	<u>(403,534)</u>
	-	-	-
Other creditors	24,137	27,260	26,438
	<u>24,137</u>	<u>27,260</u>	<u>26,438</u>

No new structured settlement arrangements have been entered into during the period. The movement in these structured liabilities since the year end is due to exchange movements.

The carrying values disclosed above reasonably approximate their fair values at the balance sheet date.

The Group has purchased annuities from third party life insurance companies for the benefit of certain claimants. In the event that any of these life insurance companies were unable to meet their obligations to these annuitants, any remaining liability would fall upon the respective insurance company subsidiaries. The Directors believe that, having regard to the quality of the security of the life insurance companies, the possibility of a material liability arising in this way is very unlikely. The life companies will settle the liability directly with the claimants and no cash will flow through the group. Accordingly, these assets and liabilities have been offset to reflect the substance of the transactions and to ensure that the disclosure of the balances does not detract from the users' ability to understand the Group's future cash flows.

In respect of the Quest group, the assets, liabilities of the segregated cells and the profits and losses of each cell are not available for use by Quest, nor the Group, and as such these balances are not included in the consolidated balance sheet. The amounts held on behalf of the segregated cells as at 30 June 2009 amount to £38,686,000 (31 December 2008 £44,488,000).

# Notes to the interim financial statements

For the six months ended 30 June 2009

## 9. Borrowings

The group has in place a £30,000,000 revolving multicurrency facility with The Royal Bank of Scotland. Of this £4,616,000 was drawn as at 30 June 2009 (31 December 2008 £4,613,000).

## 10. Issued share capital

Issued share capital as at 30 June 2009 amounted to £1,118,260 (31 December 2008: £1,118,260).

## 11. Other reserves

	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Shares to be issued	150	150	150
Share premium	17,255	17,255	17,255
Treasury share reserve	<u>(1,516)</u>	<u>-</u>	<u>(1,197)</u>
	<u>15,889</u>	<u>17,405</u>	<u>16,208</u>

### Shares to be issued

	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Balance at 1 January	150	151	151
Issued shares	<u>-</u>	<u>(1)</u>	<u>(1)</u>
Balance period end	<u>150</u>	<u>150</u>	<u>150</u>

### Share Premium

	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Balance at 1 January	17,255	17,250	17,250
Issued shares	<u>-</u>	<u>5</u>	<u>5</u>
Balance period end	<u>17,255</u>	<u>17,255</u>	<u>17,255</u>

### Treasury share reserve

	6 months 30 Jun 2009 £000	6 months 30 Jun 2008 £000	Year ended 31 Dec 2008 £000
Balance at 1 January	(1,197)	-	-
Treasury shares	<u>(319)</u>	<u>-</u>	<u>(1,197)</u>
Balance period end	<u>(1,516)</u>	<u>-</u>	<u>(1,197)</u>

# Notes to the interim financial statements

For the six months ended 30 June 2009

## 12. Contingencies and commitments

As a condition of the acquisition of R&Q Re (UK), the Company entered into an assignment, assumption and indemnity agreement to counter-indemnify the ACE Group in respect of two guarantees given by ACE in favour of the Institute of London Underwriters for certain policies written by R&Q Re (UK). This counter-indemnity is unlimited in amount.

As a condition of the acquisition of Chevanstell, the Company entered into a deed of indemnity with Tryg Forsikring A/S to counter-indemnify it for four guarantees given in respect of certain policies written by Chevanstell. The aggregate limit of this counter-indemnity is £9,000,000.

The Directors believe that it is very unlikely that either of these counter-indemnities will be called upon.

## 13. Business combinations

On 9 June 2009 the Group purchased the entire issued share capital of Woolworths Insurance Guernsey Limited, a company incorporated in Guernsey.

The acquisition has been accounted for using the acquisition method of accounting. After the alignment of accounting policies and other adjustments to the valuation of assets and liabilities to reflect their fair value at acquisition, the fair value of net assets acquired was £1,200,940. Negative goodwill of £382,440 arose. The reasoning behind this acquisition is detailed in the Chairman's statement.

The following table shows the fair value of assets and liabilities included in the consolidated financial statements at the date of acquisition.

	<b>Fair value</b>
	<b>£000</b>
Investments	3,248
Other debtors	7
Cash	4,681
Escrow	(81)
Technical provisions	(6,639)
Other creditors	(15)
Net assets acquired	<u>1,201</u>
Satisfied by	
Acquisition costs paid	(819)
Negative goodwill	<u>382</u>

# Independent review report to Randall & Quilter Investment Holdings plc

## For the six months ended 30 June 2009

### Introduction

We have been engaged by the Company to review the condensed set of Financial Statements in the financial report for the six months ended 30 June 2009 which comprise the condensed consolidated income statement, condensed consolidated statement of financial position, condensed consolidated cash flow statement, condensed consolidated comprehensive income, condensed consolidated statement of changes in equity and related notes. We have read the other information contained in the six month financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### Directors' responsibilities

The six month financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies. The annual Financial Statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of Financial Statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of Financial Statements in the six month financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the AIM Rules for Companies. We do not, in producing this report, accept or assume responsibility for any other purpose to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of review

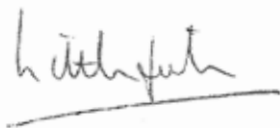
We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of Financial Statements in the financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules for Companies.

### Emphasis of matter - significant uncertainty in relation to technical provisions

As stated in note 6 significant uncertainty arises in the quantification of technical provisions because of the long tail nature of the business underwritten by the Group's insurance company subsidiaries in run-off. If further information becomes available to the Directors of those companies which gives rise to material additional liabilities, the going concern basis might no longer be appropriate for those companies and adjustments would need to be made to reduce the value of their assets to their realisable amount and to provide for any further liabilities which might arise. Our opinion is not qualified in this respect.



Littlejohn LLP

Chartered Accountants  
and Registered Auditors

2 September 2009

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