

# ADYE Holdings Limited

## GROUP REPORT & FINANCIAL STATEMENTS

30 June 2011

# 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

**Joint Secretaries:**

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 2011.

### **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 the provision of a number of bespoke and tailored wholesale insurance solutions.

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

The Board are delighted with the progress that the Group companies continue to make with overall profits doubling on an annualised basis.

The coming year will see further growth from the Insurance Company's key European markets as it continues to pursue its strategy of developing profitable niche income streams. The business will continue to provide Shareholders with a significant return on capital invested and the Directors of the subsidiary companies are investigating a number of new opportunities currently which will further enhance performance for Shareholders and return real long term growth for the Group.

### **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.

### **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.

### **Currency risk**

The Group writes 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 £19,017,159 relative to total premiums written of £51,922,789. To the extent that Directors are comfortable they have sufficient euro currency cash balance to discharge potential liabilities, surplus balances are exchanged for sterling.

### **Credit risk**

Credit risk arises from policies sold on a deferred basis where premium is due on settlement of the case. As at 30 June 2011, debtors from fully deferred schemes represented £8,207,633 of which £163,319 were settled within more than 90 days and £372,640 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 £774,809.

# ADYE Holdings Limited

## DIRECTORS' REPORT *(continued)*

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### Financial risk management objectives and policies *(continued)*

#### Credit risk *(continued)*

In addition, credit risk also 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 £14,093,387 non-deferred debtors, £14,066,004 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 money market fund deposits, a liquidity fund UCIT and liquid tradable securities.

#### 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.

#### Directors and their interests

The directors of the Company during the year were as stated on page 1.

#### 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:

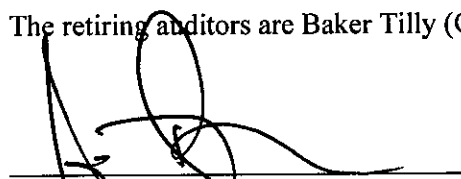

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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.

  
\_\_\_\_\_  
Andrew Flowers  
\_\_\_\_\_  
Paul Martinez

23 April 2012

**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 2011 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.



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

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**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 2011 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

# ADYE Holdings Limited

GROUP PROFIT AND LOSS ACCOUNT for the year ended 30 June 2011

## TECHNICAL ACCOUNT

	Notes	2011		2010	
		£	£	£	£
<b>Earned premiums, net of reinsurance</b>					
Gross written premiums	2	51,922,789		20,973,861	
Outward reinsurance premiums	2	(13,084,483)		(1,527,281)	
<b>Net written premiums</b>		<b>38,838,306</b>		<b>19,446,580</b>	
Change in the gross provision for unearned premiums	2	(13,518,169)		(4,951,343)	
Change in the provision for unearned premiums, reinsurers' share	2	5,559,393		712,219	
			<b>(7,958,776)</b>		<b>(4,239,124)</b>
<b>Earned premiums, net of reinsurance</b>		<b>30,879,530</b>		<b>15,207,456</b>	
<b>Other technical income / (expense)</b>			<b>453</b>		<b>(19,380)</b>
<b>Claims incurred, net of reinsurance</b>					
Claims paid					
Gross amount	3	(13,586,573)		(6,150,657)	
Reinsurer's share	3	603,404		367,372	
		<b>(12,983,169)</b>		<b>(5,783,285)</b>	
Change in the provision for claims					
Gross amount	3	(7,472,293)		(1,564,854)	
Reinsurer's share	3	1,622,592		6,820	
		<b>(5,849,701)</b>		<b>(1,558,034)</b>	
<b>Claims incurred, net of reinsurance</b>		<b>(18,832,870)</b>		<b>(7,341,319)</b>	
<b>Net operating expenses</b>	4	<b>(4,815,971)</b>		<b>(3,307,515)</b>	
<b>Balance on the Technical Account</b>		<b>£ 7,231,142</b>		<b>£ 4,539,242</b>	

The notes on pages 14 to 30 form part of these financial statements.



# ADYE Holdings Limited

GROUP PROFIT AND LOSS ACCOUNT for the year ended 30 June 2011

## NON - TECHNICAL ACCOUNT

	Notes	2011 £	2010 £
<b>Balance on the General Business Technical Account</b>		<b>7,231,142</b>	<b>4,539,242</b>
<b>Investment income</b>			
Interest receivable		125,807	1,371
Unrealised gain on investments		124,408	6,749
<b>Other income</b>		<b>1,910</b>	<b>124,450</b>
<b>Other charges</b>	5	<b>(4,277,379)</b>	<b>(1,917,333)</b>
<b>Profit on ordinary activities before tax</b>		<b>3,205,888</b>	<b>2,754,479</b>
Tax on profit on ordinary activities	6	(157,137)	(1,949)
<b>Profit on ordinary activities after taxation</b>		<b>3,048,751</b>	<b>2,752,530</b>
Minority interest		(108)	-
<b>Profit for the financial year</b>		<b>£ 3,048,643</b>	<b>£ 2,752,530</b>

The group has had no discontinued activities in the year. Accordingly, the above results for the group relate solely to continuing activities and include all recognised gains and losses in arriving at the profit for the year. This profit is stated on an historical cost basis modified by marking to market of other financial investments and fair valuation of land and buildings.

The notes on pages 14 to 30 form part of these financial statements.

# ADYE Holdings Limited

GROUP BALANCE SHEET as at 30 June 2011

## ASSETS

	Notes	2011		2010	
		£	£	£	£
<b>Intangible assets</b>					
Goodwill	7		307,197		383,997
<b>Investments</b>					
Land and buildings	8	906,000		-	
Financial investments	9	13,564,169		5,505,379	
			<u>14,470,169</u>		<u>5,505,379</u>
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums	2	6,271,612		712,219	
Claims outstanding	3	2,508,092		885,500	
			<u>8,779,704</u>		<u>1,597,719</u>
<b>Debtors</b>					
Debtors arising out of direct insurance operations – amounts owed by intermediaries		22,503,599		10,926,944	
Debtors arising out of reinsurance operations		736,737		405,732	
Other debtors		717,364		511,752	
			<u>23,957,700</u>		<u>11,844,428</u>
<b>Other assets</b>					
Tangible fixed assets	10	173,198		95,413	
Cash at bank and in hand		4,189,826		3,144,399	
			<u>4,363,024</u>		<u>3,239,812</u>
<b>Prepayments and accrued income</b>					
Accrued interest		96,819		-	
Deferred acquisition costs		5,990,273		930,155	
Other prepayments and accrued income		140,110		72,198	
			<u>6,227,202</u>		<u>1,002,353</u>
<b>Total assets</b>		<b>£ 58,104,996</b>		<b>£ 23,573,688</b>	

The notes on pages 14 to 30 form part of these financial statements.

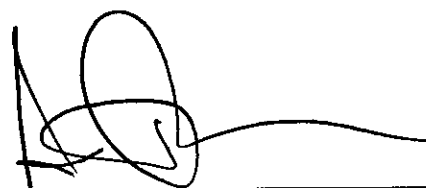
# ADYE Holdings Limited

GROUP BALANCE SHEET as at 30 June 2011(*continued*)

## LIABILITIES

	Notes	2011 £	£	2010 £	£
<b>Capital and reserves</b>					
Called up share capital	11, 12	700		700	
Share premium account	12	699,550		699,550	
Profit and loss account	12	7,449,784		4,401,141	
<b>Equity shareholders' funds</b>		<b>8,150,034</b>		<b>5,101,391</b>	
<b>Equity minority interests</b>		<b>713,608</b>		<b>51,000</b>	
<b>Technical provisions</b>					
Provision for unearned premiums					
- gross amount	2	23,764,057		10,245,888	
Claims outstanding – gross amount	3	10,730,630		3,258,337	
		<b>34,494,687</b>		<b>13,504,225</b>	
<b>Creditors</b>					
Creditors arising out of direct insurance operations		1,807,621		116,412	
Creditors arising out of reinsurance operations		7,078,736		807,275	
Other creditors - including taxation and social security	13	4,600,034		3,846,758	
		<b>13,486,391</b>		<b>4,770,445</b>	
<b>Accruals and deferred income</b>		<b>1,260,276</b>		<b>146,627</b>	
<b>Total liabilities and shareholders' equity</b>		<b>£ 58,104,996</b>		<b>£ 23,573,688</b>	

Approved and signed on behalf of the Board of directors on **23 April 2012**



Andrew Flowers



Paul Martinez

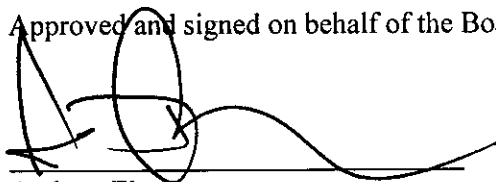
The notes on pages 14 to 30 form part of these financial statements.


# ADYE Holdings Limited

COMPANY BALANCE SHEET as at 30 June 2011

	Notes	2011 £	2010 £
<b>ASSETS</b>			
<b>Investments</b>			
Investment in group undertakings	9	2,000,000	2,000,000
<b>Debtors</b>			
Sundry debtors		2,750	250
<b>Other assets</b>			
Cash at bank and in hand		372	-
<b>Total assets</b>		<b>£ 2,003,122</b>	<b>£ 2,000,250</b>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	11,12	700	700
Share premium account	12	699,550	699,550
Profit and loss account	12	1,287,133	(73,212)
<b>Equity shareholders' funds</b>		<b>1,987,383</b>	<b>627,038</b>
<b>Creditors:</b>			
Amounts due to group undertakings		-	1,364,622
Other creditors		11,089	7,590
		<b>11,089</b>	<b>1,372,212</b>
Accruals and deferred income		4,650	1,000
		<b>15,739</b>	<b>1,373,212</b>
<b>Total liabilities and shareholders' equity</b>		<b>£ 2,003,122</b>	<b>£ 2,000,250</b>

Approved and signed on behalf of the Board of directors on 23 April 2012

  
Andrew Flowers

  
Paul Martinez

The notes on pages 14 to 30 form part of these financial statements.

# ADYE Holdings Limited

## GROUP CASH FLOW STATEMENT for the year ended 30 June 2011

	Notes	2011		2010	
		£	£	£	£
<b>Net cash inflow from operating activities</b>	14(i)	<b>9,918,551</b>		<b>7,751,734</b>	
<b>Returns on investments and servicing of finance</b>					
Interest received		<b>125,807</b>		1,371	
Interest paid		<b>(27,757)</b>		(29,862)	
			<b>98,050</b>		(28,491)
<b>Taxation</b>					
Taxation paid			-		(1,350)
<b>Capital expenditure and financial investments</b>					
Payments to acquire tangible fixed assets			<b>(130,792)</b>		(65,691)
Payment to acquire land			<b>(769,256)</b>		-
<b>Net cash inflow before financing</b>			<b>9,116,553</b>		<b>7,656,202</b>
<b>Financing</b>					
Payment of loan			-		(916,636)
<b>Net increase in cash</b>			<b>9,116,553</b>		<b>6,739,566</b>
<b>Cash flows were invested as follows:</b>					
Increase in cash			<b>1,045,427</b>		1,234,187
Increase in financial investments			<b>8,071,126</b>		5,505,379
			<b>9,116,553</b>		<b>6,739,566</b>

The notes on pages 14 to 30 form part of these financial statements.

# ADYE Holdings Limited

## GROUP CASH FLOW STATEMENT for the year ended 30 June 2011 *(continued)*

	Notes	2011 £	2010 £
<b>Movement in opening and closing portfolio investments net of financing:</b>			
Net cash flow for the period	14(ii)	9,116,553	6,739,566
Net decrease in loans and overdrafts		-	916,636
		<u>9,116,553</u>	<u>7,656,202</u>
Portfolio investments net of financing b/fwd		8,649,778	993,576
Other changes including market values and exchange rate effects		(12,336)	-
<b>Portfolio investments net of financing c/fwd</b>		<u><u>17,753,995</u></u>	<u><u>8,649,778</u></u>
<b>Cash, portfolio investment and financing consisting of:</b>			
Cash at bank		4,189,826	3,144,399
Financial investments		13,564,169	5,505,379
		<u>17,753,995</u>	<u>8,649,778</u>
	14(ii)	<u><u>17,753,995</u></u>	<u><u>8,649,778</u></u>

The notes on pages 14 to 30 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 as modified by marking to market of other financial investments and fair valuation of land and buildings, 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 2011.

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.

Premiums are payable on inception of the policy other than for deferred policies where payment is due when the claim has been settled.

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 year. They are spread over an equivalent period 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.

#### **Sliding scale commission**

Where applicable, sliding scale commission is accrued on business written using ultimate loss ratios to calculate the commission. It is spread over a period equivalent to that over which the premiums on the underlying business are earned.

#### **Guarantee fund levies**

Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme and Motor Insurers' Bureau based on premium income recognised in the financial statements. The charge in the technical account is matched to earned premiums.

#### **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.

#### **Land and buildings**

Land and buildings are valued at open market valuation. Full valuations are made by independent, professionally qualified valuers every three years. The aggregate surplus or deficit on revaluation is taken to the non-technical account.

No depreciation or amortisation is provided in respect of land and buildings as the directors consider that the residual value is not less than the current carrying value. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

#### **Other Financial investments**

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

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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

#### **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**

##### *Current taxation*

Current taxation is provided for on the basis of tax rates and tax laws that have been enacted or substantially enacted at the year-end date.

##### *Deferred taxation*

Deferred tax is recognised in respect of all significant timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its 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.

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

#### **Goodwill**

Positive goodwill arising on acquisition of a group 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 group undertakings**

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

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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

#### **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:

Leasehold improvement	20%
Computer equipment	25%
Office equipment	25%

#### **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

	2011		
	Gross £	Reinsurance £	Net £
Premiums receivable	51,922,789	(13,084,483)	38,838,306
Unearned premiums carried forward	(23,764,057)	6,271,612	(17,492,445)
Unearned premiums brought forward	10,245,888	(712,219)	9,533,669
Change in the provision for unearned premiums	(13,518,169)	5,559,393	(7,958,776)
Premiums earned	£ 38,404,620	(7,525,090)	30,879,530

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 2. Earned premiums, net of reinsurance (continued)

	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

### 3. Claims incurred net of reinsurance

	2011		
	Gross £	Reinsurance £	Net £
Claims paid	13,586,573	(603,404)	12,983,169
Outstanding claims carried forward	10,730,630	(2,508,092)	8,222,538
Outstanding claims brought forward	(3,258,337)	885,500	(2,372,837)
	7,472,293	(1,622,592)	5,849,701
Claims incurred	£ 21,058,866	(2,225,996)	18,832,870

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Claims incurred, net of reinsurance (*continued*)

	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

### 4. Net operating expenses

	2011 £	2010 £
Acquisition costs	12,038,589	4,178,782
Change in deferred acquisition cost	(5,060,118)	(870,938)
Change in deferred acquisition cost – reinsurers	965,338	(329)
Other operating expenses	97,492	-
Reinsurance commissions	(3,225,330)	-
	£ 4,815,971	£ 3,307,515

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 5. Other charges

	2011 £	2010 £
Bank charges	19,987	10,775
Bank loan interest payable	27,757	29,862
Gross wages and salaries	2,191,484	1,049,152
Social security costs	19,143	16,928
Auditor's remuneration	29,963	45,272
Depreciation of tangible fixed assets	53,007	60,627
Legal & professional fees	1,752,534	213,659
Goodwill amortisation	76,800	76,800
Other expenses	106,704	414,258
	<u>£ 4,277,379</u>	<u>£ 1,917,333</u>

The aggregate amounts of emoluments paid to Directors of Group Companies during the year amounted to £1,748,914 (2010: £674,069).

The Group bore the cost of an average nineteen (2010: thirteen) employees during the year (including directors).

### 6. Taxation

The Company was an exempt company under the Companies (Taxation and Concessions) Act 1983 until 31 December 2010. As from 1 January 2011 the Company is liable to corporation tax on income derived from a source within Gibraltar in accordance with the Income Tax Act 2010.

	2011 £	2010 £
<i>Current tax</i>		
Gibraltar corporation tax on profit for the period	156,527	-
Exempt tax fees	-	1,350
United Kingdom corporation tax	-	599
	<u>156,527</u>	<u>1,949</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	610	-
	<u>157,137</u>	<u>1,949</u>

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Taxation (continued)

The tax assessed for the year is lower than the standard rate of corporate tax in Gibraltar of 10% (2010: 22%). The differences are explained below:

	2011 £	2010 £
Profit on ordinary activities before tax	3,205,888	2,797,233
Profits on ordinary activities multiplied by the standard rate of Corporation Tax of 10% (2010: 22%)	320,587	374,250
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3,781	-
Difference between depreciation and capital allowances	1,630	-
Income not taxable	(169,471)	(373,651)
Fixed amount payable	-	1,350
	<hr/>	<hr/>
Current tax charge for the period	156,527	1,949
	<hr/> <hr/>	<hr/> <hr/>

### 7. Goodwill

	£
<b>Cost</b>	
At 1 July 2010	614,397
Additions	-
	<hr/>
At 30 June 2011	614,397
	<hr/>
<b>Amortisation</b>	
At 1 July 2010	230,400
Charged during the year	76,800
	<hr/>
At 30 June 2011	307,200
	<hr/>
<b>Net book value</b>	
At 30 June 2011	£ 307,197
	<hr/> <hr/>
At 30 June 2010	£ 383,997
	<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.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 8. Land and buildings

	£	£
As at 1 July 2010		-
Purchased of commercial property units	709,256	
Revaluation on commercial properties	136,744	
	<hr/>	846,000
Purchased of car parking space		60,000
		<hr/>
As at 30 June 2011		<b>906,000</b>
		<hr/> <hr/>

The commercial property units relate to units and car parking spaces at Ragged Staff Wharf, Queensway Quay, Gibraltar purchased by the Company on 31st May 2011. The units are being occupied by the Company as offices.

An open market revaluation was carried out by Paul Gibson MRICS of Gibsons Chartered Surveyors on the commercial property units on 7 June 2011. The properties (excluding the parking spaces) were valued at £846,000.

### 9. Other Financial Investments

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

	2011 £	2010 £
Shares and variable yield securities and units in unit trusts	2,702,695	3,506,192
Debit securities and other fixed income securities.	4,300,108	-
Deposits with credit institutions	6,561,366	1,999,187
	<hr/>	<hr/>
	<b>£ 13,564,169</b>	<b>£ 5,505,379</b>
	<hr/> <hr/>	<hr/> <hr/>

The cost of investments at 30 June 2011 was £13,375,483 (2010: £5,505,379).

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

	2011 £	2010 £
Investment in EIG Holdings Limited	£ 2,000,000	£ 2,000,000
	<hr/> <hr/>	<hr/> <hr/>



# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 9. Other Financial Investments (continued)

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% (2010: 100%)	2,000,000 (2010: 2,000,000)	5,506,805 (2010: 3,031,652)	3,875,153 (2010: 1,080,477)

This information is based on the subsidiary company's latest audited accounts as at 30 June 2011.

#### 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	99.99% (2010: 99.99%)	6,300,000 (2010: 4,050,000)	9,165,687 (2010: 5,175,846)	1,077,341 (2010: 1,096,098)
EIG Services Limited	Gibraltar	100% (2010: 100%)	11,000 (2010: 11,000)	305,443 (2010: 2,075,841)	2,129,602 (2010: 1,700,685)
Quality Rating Limited (QRL)	United Kingdom	100% (2010: 100%)	150,000 (2010: 150,000)	58,790 (2010: 60,625)	(1,835) (2010: (794))
Call 4 (Gibraltar) Limited	Gibraltar	- (2010: 100%)	- (2010: 1,000)	- (2010: 11,337)	- (2010: (2,121))
Jelly Holdings Limited	Gibraltar	- (2010: 100%)	- (2010: 100)	- (2010: (1,845))	- (2010: (1,945))
			<b>£ 6,461,000</b> (2010: 4,212,100)		

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Tangible fixed assets

	Leasehold improvements £	Computer equipment £	Office equipment £	Total £
<b>Cost</b>				
At 1 July 2010	-	787,819	21,340	809,159
Additions during period	47,129	82,157	1,506	130,792
<b>At 30 June 2011</b>	<b>47,129</b>	<b>869,976</b>	<b>22,846</b>	<b>939,951</b>
<b>Depreciation</b>				
At 1 July 2010	-	692,406	21,340	713,746
Charge for the period	1,347	51,545	115	53,007
<b>At 30 June 2011</b>	<b>1,347</b>	<b>743,951</b>	<b>21,455</b>	<b>766,753</b>
<b>Net book value</b>				
At 30 June 2011	<b>45,782</b>	<b>126,025</b>	<b>1,391</b>	<b>173,198</b>
At 30 June 2010	-	95,413	-	95,413

### 11. Called up share capital

	2011 £	2010 £
<i>Authorised:</i>		
1,000 ordinary shares of £1 each	1,000	1,000
1,000 non-cumulative redeemable preference shares of £1 each	1,000	1,000
	<b>£ 2,000</b>	<b>£ 2,000</b>
<i>Share capital allotted, called up and fully paid:</i>		
500 ordinary shares of £1 each	500	500
200 non-cumulative redeemable preference shares of £1 each	200	200
	<b>£ 700</b>	<b>£ 700</b>

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

### 12. Reconciliation of shareholders' funds and movements in reserves

#### Group

	Share Capital £	Share Premium account £	Profit and loss account £	Total £
Balance at 1 July 2010	700	699,550	4,401,141	5,101,391
Profit for the year	-	-	3,048,643	3,048,643
<b>Balance at 30 June 2011</b>	<b>£ 700</b>	<b>699,550</b>	<b>7,449,784</b>	<b>8,150,034</b>

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 2010	700	699,550	(73,212)	627,038
Profit for the year	-	-	1,360,345	1,360,345
<b>Balance at 30 June 2011</b>	<b>£ 700</b>	<b>699,550</b>	<b>1,287,133</b>	<b>1,987,383</b>

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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

	2011 £	2010 £
Trade creditors	1,113,593	1,021,439
Insurance premium tax	2,533,458	1,520,594
Taxation and social security costs	180,401	50,827
Rhone Holdings Limited loan	700,000	700,000
Sundry creditors	72,582	553,898
	<u>£ 4,600,034</u>	<u>£ 3,846,758</u>

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

	2011 £	2010 £
Profit before taxation and minority interest	3,205,888	2,754,479
Adjustments for:		
Depreciation	53,007	60,627
Amortisation of goodwill	76,800	76,800
Increase in debtors and prepayments	(17,338,121)	(3,494,315)
Increase in net technical provisions	13,808,477	5,797,158
Increase in creditors and accruals and deferred income	9,672,458	2,653,493
Increase / (decrease) in minority interest	662,500	(124,999)
Interest receivable	(125,807)	(1,371)
Interest expense	27,757	29,862
Unrealised gains	(124,408)	-
	<u>£ 9,918,551</u>	<u>£ 7,751,734</u>

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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

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

	2010 £	Cash flows for the year £	Other movements £	2011 £
Cash at bank and in hand	3,144,399	1,045,427	-	4,189,826
Financial investments	5,505,379	8,071,126	(12,336)	13,564,169
	£ 8,649,778	9,116,553	(12,336)	17,753,995

### 15. Segmental reporting

	2011				
	Motor £	Fire and other damage to property £	Legal expense £	Miscellaneous £	Total £
Gross written premiums	36,135,377	2,043,936	5,548,543	8,194,933	51,922,789
Gross earned premiums	21,966,391	2,533,864	5,312,192	8,592,173	38,404,620
Gross claims incurred	(14,339,292)	(3,075,750)	567,851	(4,211,677)	(21,058,868)
Gross operating expenses	6,380,753	1,025,466	2,278,191	795,022	10,479,432
Reinsurance balance	2,848,270	(617,975)	808,807	-	3,039,102

Premiums written for direct insurance business total £46,556,780 and for reinsurance business £6,837,535 and have been concluded by the Company in Gibraltar.

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 15. Segmental reporting (continued)

	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

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

### 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:

	Income/ (Expenses)		Amounts due (to)/ from parties	
	2011 £	2010 £	2011 £	2010 £
Rhone Holdings Limited	(1,027,757)	(9,577)	(709,333)	(709,577)
Aquarius Company Secretaries Limited	(6,650)	(900)	-	-
Cruz & Co	(61,916)	(38,875)	(15,777)	-
PDL International	(60,000)	(60,000)	(5,000)	-
Monitor Insurance Services Limited	(46,329)	(46,329)	(1,974)	(1,982)

# ADYE Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

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### **16. Related party transactions (*continued*)**

The amount for Rhone Holdings Limited includes 9,333 (2010:£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**

Enterprise Insurance Company Plc 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.

Quality Rating Limited 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 Enterprise Insurance Company Plc'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 Aquarius Trust Company Limited, a trust company registered in Gibraltar.