

Tawa Associates Limited

Report and Accounts

31 December 2018

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STRATEGIC REPORT

The Directors present their strategic report for Tawa Associates Limited ("the Company") for the year ended 31 December 2018.

Principal activity and review of business

The Company's current principal activity is as a holding company for an insurance and reinsurance risk carrier, two companies specialising in the recovery of assets and a number of intermediate holding companies. The objective of the Company is to maximise the payment of dividends to shareholders through the realisation of cash from its remaining investments and to manage the outstanding litigations and operating expenses.

The principal developments impacting the Company in 2018 have been:

- The risks within the portfolio of liabilities within CX Reinsurance Company Limited ("CX Re") have been further mitigated during the year by settlement of claims and commutations and the resolution of some outstanding litigations. Undiscounted net reserves were reduced by 16.1%. Reserves for claims have been stable overall for some years, however the costs of managing litigations and the expenses involved in compliance with regulatory requirements continue to erode the capital of CX Re. The Directors of CX Re are actively considering options to settle remaining liabilities;
- The sale of Lodestar Marine Limited was completed on 1 June 2018 following regulatory approval;
- Steps to repatriate the majority of the capital of Island Capital Limited was completed in January 2019 resulting in a dividend of \$2.6 million being paid to the Company; and
- Additional steps have been taken during the year to reduce the costs borne and retained by the Company.

Development and financial performance during the year

The principal key performance indicators for the Company are:

- Free cash generated by the Company through sale of investments, management of litigation and expenses;
- Progress made in the projects to maximise the future cash flows to the Company from its investments;
- Changes in the net assets of the Company; and
- Successful outcome of the litigations, measured in removal of volatility and net cash received either through judgement awards or settlements.

Net free cash held by the Company increased by \$1.6 million from \$0.2 million to \$1.8 million due to net proceeds from the sale of Lodestar Marine Limited of \$1.9 million; net costs to operate the Company of \$(0.7) million; increase in amounts due from subsidiaries and related companies \$(0.1) million; proceeds from tax losses sold \$0.2 million and recovery in relation to a warranty claim \$0.2 million.

The reduction in net assets of \$4.7 million was driven by the comprehensive losses for 2018 (2017: \$16.2 million). These results were attributable to the following:

- Impairment in the value of investments and debtors due from subsidiaries, net of income receivable: \$(4.2) million (2017: \$(16.6) million);
- Cost of sales and administrative expenses net of recharges included in turnover: \$(0.7) million (2017: \$(0.7) million);
- Reduction in deferred consideration payable to previous shareholders of an investment: \$0.5 million (2017: \$1.1 million);
- Tax losses sold: \$0.2 million (2017: \$(0.2) million); and
- Other movements: \$nil (2017: \$(0.2) million).

STRATEGIC REPORT continued**Financial position at the reporting date**

Total shareholders' funds decreased during 2018 from \$15.6 million to \$10.9 million primarily due to:

Comprehensive losses set out above: \$(4.7) million (2017: \$(16.2) million).

Principal risks and uncertainties

The risks and uncertainties affecting the Company as perceived by the Directors are set out within the Directors' Report.

Future developments

The Company will continue to pursue its strategy to maximise the payment of dividends to shareholders through the realisation of cash from its remaining investments and to manage the outstanding litigation and operating expenses.

By Order of the Board

G M J Erulin

Chief Executive Officer

3 April 2019

REPORT OF THE DIRECTORS

The Directors present their annual report, together with the financial statements of Tawa Associates Limited (“the Company”) for the year ended 31 December 2018.

Directors

The Directors of the Company are listed on page 7 and unless otherwise indicated, all served throughout the year.

Directors’ remuneration

Total remuneration paid to the Company’s Directors during the year:

Gilles Erulin – \$458,398 (2017: \$310,236); and

Colin Bird – \$46,402 (2017: \$45,003).

Statement of Directors’ responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006.

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.

Going concern

The Directors are satisfied that the Company has sufficient resources to continue for the foreseeable future. Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts. As of this date, there are no post balance sheet events to suggest any going concern issues.

Risk management objectives and policies

In the ordinary course of business, the Company is exposed to a variety of risks within its operations and those of its subsidiaries with insurance, credit and liquidity risk being of particular significance within the subsidiaries of the Company.

The Directors draw attention to the uncertainties surrounding the valuation of an investment in a subsidiary, as set out in note 2. The valuation of the recoverable amounts is dependent on assumptions relating to the net claims reserves within CX Re. Changes in the assessment of net reserves that may be required in the future, due to changes in the factors on which assumptions are based, may have a material impact on the results, net assets and the solvency of the Company.

Directors’ indemnities

The Company is a beneficiary of insurance cover for its Directors and Officers against liabilities which may be incurred by them while acting as Directors and Officers. As at the date of this report, indemnities are in force under which the Company has agreed to indemnify its Directors and Officers, to the extent permitted by law and the Company’s articles of association, against all costs, charges, losses, liabilities and expenses that they may incur in the execution of their duties, powers and offices as Directors and Officers of the Company. Copies of these indemnities are kept at the Company’s office and are open for inspection by any member of the Company without charge. For the group, Tawa Associates Limited maintains the pertinent policy for the Directors and Officers of its subsidiaries.

REPORT OF THE DIRECTORS continued**Dividends**

No dividends were paid to the shareholders during the year (2017: \$nil).

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the financial year end can be found in the Strategic Report on page 4 and form part of this report by cross-reference.

Auditor

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The auditor has expressed their willingness to continue in office as auditor and a resolution to reappoint the auditor will be proposed at the forthcoming Annual General Meeting. Mazars LLP will continue as auditor in accordance with s487(2) of the Companies Act 2006.

By Order of the Board

G M J Erulin

Chief Executive Officer

3 April 2019

CORPORATE INFORMATION

Directors

C G Bird – Chairman and Non-Executive Director
G M J Erulin – Chief Executive Officer
D A Vaughan – Non-Executive Director (resigned 18 September 2018)
A Greget – Non-Executive Director (appointed 18 September 2018)

Registered Office

118 Pall Mall
London
United Kingdom
SW1Y 5ED

Company Registration Number

4200683 (England and Wales)

Company Secretary

M B W Bruce

Statutory Auditor

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TAWA ASSOCIATES LIMITED

Opinion

We have audited the financial statements of Tawa Associates Limited (the "Company") for the year ended 31 December 2018 which comprise the profit and loss account and other comprehensive income, the statement of changes in equity, the balance sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TAWA ASSOCIATES LIMITED

continued

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Sam Porritt (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Tower Bridge House

St Katharine's Way

London

E1W 1DD

4 April 2019

PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 US\$000	2017 US\$000
Turnover	3	1,171	2,114
Cost of sales		(314)	(1,429)
Gross profit		857	685
Income from investment in subsidiary undertakings		641	1,121
Other income	4	579	1,302
Administrative expenses		(1,602)	(1,280)
Impairment of investment in subsidiary undertakings	5	(4,214)	(17,695)
Loss on disposal of subsidiary undertaking	6	(988)	-
Loss on ordinary activities before interest and taxation		(4,727)	(15,867)
Interest receivable and similar income		7	-
Interest payable and similar charges		-	(199)
Loss on ordinary activities before taxation	7	(4,720)	(16,066)
Taxation	11	178	(192)
Loss for the financial year		(4,542)	(16,258)
Other comprehensive losses:			
Currency translation differences on conversion to presentation currency		(156)	39
Total comprehensive losses		(4,698)	(16,219)

The notes on pages 13 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Called up share capital GP£	Called up share capital US\$000	Merger reserve US\$000	Profit and loss account US\$000	Total US\$000
At 1 January 2017	112	-	15,843	15,967	31,810
Loss for the financial year	-	-	-	(16,258)	(16,258)
Currency translation differences on conversion to presentation currency	-	-	-	39	39
Total comprehensive losses	-	-	-	(16,219)	(16,219)
Merger reserve realised and transferred to the profit and loss account	-	-	(10,207)	10,207	-
At 31 December 2017	112	-	5,636	9,955	15,591
At 1 January 2018	112	-	5,636	9,955	15,591
Loss for the financial year	-	-	-	(4,542)	(4,542)
Currency translation differences on conversion to presentation currency	-	-	-	(156)	(156)
Total comprehensive losses	-	-	-	(4,698)	(4,698)
Merger reserve realised and transferred to the profit and loss account	-	-	(3,029)	3,029	-
At 31 December 2018	112	-	2,607	8,286	10,893

The notes on pages 13 to 23 form part of these financial statements.

The merger reserve is the excess of the cost of the shares acquired over the nominal value of the shares issued.

The profit and loss reserve represents cumulative profits or losses, including currency translations on translation to presentation currency, net of dividends paid and other adjustments.

BALANCE SHEET

As at 31 December 2018

	Notes	2018 US\$000	2017 US\$000
Fixed assets			
Investment in subsidiary undertakings	13	8,878	15,830
Other financial investments		46	51
		8,924	15,881
Current assets			
Other debtors	14	665	781
Cash at bank and in hand	15	1,836	180
		2,501	961
Current liabilities			
Other creditors - amounts falling due within one year	16	(562)	(1,280)
Prepayments and accrued income		30	29
Net current assets		1,969	(290)
Net assets		10,893	15,591
Capital and reserves			
Called up share capital	17	-	-
Merger reserve		2,607	5,636
Profit and loss account		8,286	9,955
Total shareholders' funds		10,893	15,591

The notes on pages 13 to 23 form part of these financial statements.

The financial statements of Tawa Associates Limited (Company number: 4200683) were approved by the Board of Directors and authorised for issue on 3 April 2019 and were signed on its behalf on 3 April 2019 by:

G M J Erulin
Chief Executive Officer

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Accounting policies

The principal accounting policies are summarised below. The accounting policies have been applied consistently throughout the year and the preceding year in dealing with items which are considered material in relation to the Company's financial statements.

Basis of accounting

These accounts have been prepared under the historical cost convention, and are in accordance with applicable law and UK accounting standards Financial Reporting Standard ("FRS") 102 as issued by the Financial Reporting Council.

The Company is exempt from the requirement to produce group accounts under s400 of the Companies Act 2006 on the basis that its ultimate parent, as set out in note 22, is an EU entity which prepares group accounts.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

Going concern

The Company's activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also details: the financial position of the Company; its cash flows and liquidity position. In addition, the section on principal risks and uncertainties includes an analysis of the risks the Company faces and its policies for mitigating those risks.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and accounts. There are no subsequent events to suggest any going concern issues.

Foreign currencies

Functional and presentation currency

The financial statements are presented in US dollars and rounded to the nearest thousand.

The Company's functional currency is pound sterling, as this is the currency of the primary economic environment in which the entity operates. The Company has chosen to present its financial statements in US dollars, its presentation currency, as the majority of the Company's assets and liabilities are in US dollars. The GBP to USD rate of exchange applicable at the balance sheet date is 1.26215 (2017: 1.349).

Transactions

Transactions in foreign currencies are initially recorded using the rate of exchange ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the profit or loss.

Translation to presentation currency

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in other comprehensive income and accumulated in equity.

Investment in subsidiary undertakings

In the balance sheet investment in subsidiary undertakings are stated at cost less, where appropriate, provisions for impairment.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date that is the amount that the entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

1. Accounting policies *continued*

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities.

The Company has chosen to apply the provisions of both Section 11 and Section 12, of FRS 102, in full to account for all of its financial instruments.

Financial assets and liabilities

Basic financial assets include debtors, cash and bank balances and other financial investments. Basic financial liabilities include creditors.

Financial assets and liabilities are initially measured at the transaction price including transaction costs, unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the transaction is measured at the present value of the future receipts / payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities that are due within one year

Financial assets and liabilities which meet the conditions of basic financial instruments that are classified as payable or receivable within one year on initial recognition are subsequently measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment. Any losses arising from impairment are recognised in the profit or loss in other operating expenses.

Financial assets and liabilities that are due after one year

Financial assets and liabilities which meet the conditions of basic financial instruments that are classified as payable or receivable after one year on initial recognition are subsequently measured at amortised cost using the effective interest method. As the Company revises its estimates of payments or receipts, the carrying amount of these financial assets or financial liabilities is adjusted to reflect actual and revised estimated cash flows. The Company recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The resulting adjustment is recognised as income or expense in profit or loss at the date of the revision.

Derecognition of financial assets and liabilities

Financial assets are derecognised when and only when the contractual rights to the cash flows from the financial asset expire or are settled, the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Impairment of assets

Assets are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Non-financial assets

For non-financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the recoverable amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of future cash flows obtainable as a result of the assets continued use. These cash flows are discounted using a discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount and an impairment loss is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

1. Accounting policies *continued*

Revenue recognition

Management fees and consultancy income

Revenue is attributable to providing management and operational services relating to the insurance industry. Revenue is measured at the fair value of the consideration received or receivable. The fair value of the consideration takes into account any discounts allowed by the Company. Revenue is recognised net of VAT when the amount of the revenue can be measured reliably and it is probably that the economic benefits associated with the transaction will flow to the Company. All turnover arose within the United Kingdom and relates to the provision of management services within the insurance industry.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established. Dividend income is shown as investment return in the profit and loss account.

Interest income

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

The charge for taxation is based on the profit for the year and takes into account deferred taxation.

Deferred taxation is provided in full on timing differences between recognition of gains and losses in the financial statements and the recognition for taxation purposes. Deferred taxation liabilities are provided in relation to transactions that have occurred by the balance sheet date. Deferred taxation assets are recognised when it is considered that the benefit is more likely than not to accrue to the Company. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying the Company's accounting policies

The following critical judgement, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that has the most significant effect on the amounts recognised in the financial statements.

Impairment of investment in subsidiary undertakings and debt due from subsidiaries

Investment in subsidiary undertakings and other balances due from subsidiaries are measured in accordance with the accounting policies stated in note 1.

Investment in subsidiary undertakings are subject to impairment testing and the carrying amounts are reduced to recoverable amounts. The assets are impaired if objective evidence is available to suggest that it is probable that the Company will not be able to recover the investments or collect the amounts due.

Key sources of estimation uncertainties

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of investment in subsidiary undertaking

The Company considers whether an investment in a subsidiary undertaking is impaired. Where an indication of impairment is identified the resulting calculation of the recoverable amount involves estimation. To determine the recoverable amount the Company must estimate expected future cash flows as well as apply an appropriate discount rate.

The valuation of the investment in subsidiary CX Re is dependent on assumptions relating to the net claims reserves. The net claims reserves for asbestos, lead paint and pollution exposures are subject to significant uncertainties, as set out in the financial statements of CX Re. Changes in the reserves required for these claims may have a material impact on the determination of the valuation of the recoverable amount from CX Re in the Company's balance sheet.

The valuation of the investment in subsidiary CX Re is also dependent on assumptions relating to the various strategic options available to CX Re and the costs involved have been considered and evaluated once again. CX Re issued a letter to certain of its creditors in order to accelerate the run off through commutations. A copy of the letter can be found on its website www.cxre.com. Whilst there was some response to the letter, this has not been as much as the Directors of CX Re had expected. The Directors of CX Re are reviewing other options that are open to them in order to accelerate the run off of CX Re's liabilities in an orderly way.

3. Turnover

	2018 US\$000	2017 US\$000
Management fees and consultancy income	878	665
Recharged expenses	314	1,431
Miscellaneous	(21)	18
Total turnover	1,171	2,114

4. Other income

	2018 US\$000	2017 US\$000
Change in provision for deferred consideration	511	1,127
Miscellaneous	68	175
Total other operating income	579	1,302

5. Impairment of investment in subsidiary undertakings

	2018 US\$000	2017 US\$000
Impairments recognised on investment in subsidiary undertakings (note 13)	(4,154)	(31,890)
Impairments recognised on debt due from Group undertakings	(60)	(511)
Impairments previously recognised on debt due from Group undertakings reversed	-	15,439
Debt due from Group undertakings written off	-	(733)
Total impairment of investment in subsidiary undertakings	(4,214)	(17,695)

6. Loss on disposal of subsidiary undertaking

On 9 February 2018, a Share Purchase Agreement was signed with the Ryan Specialty Group Europe Limited relating to the sale of 100% of the Company's holding in subsidiary undertaking Lodestar Marine Limited ("Lodestar"). Completion of this transaction was dependent upon regulatory approvals, which were received on 1 June 2018.

	2018 US\$000	2017 US\$000
Consideration received	3,368	-
Cost of investment disposed	(2,887)	-
Other costs supporting sale	(1,469)	-
Total loss on disposal of subsidiary undertaking	(988)	-

7. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after (charging)/crediting:

	2018 US\$000	2017 US\$000
Foreign exchange gains/(losses)	7	(199)
Loss on sale of subsidiary undertaking	(988)	-
Change in provision for deferred consideration	511	1,127

8. Auditor's remuneration

An analysis of auditor's remuneration is as follows:

	2018 US\$000	2017 US\$000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	40	53
Fees payable to the Company's auditor for audit of the Company's subsidiaries pursuant to legislation	81	91
Total audit fees	121	144

There were no non-audit services provided to the Company.

9. Staff numbers and costs

The average monthly number of employees including Executive Directors was:

	2018	2017
Executive and management	3	3
Support	3	1
Average number of employees	6	4

Their aggregate remuneration comprised:

	2018 US\$000	2017 US\$000
Salaries	802	468
Social security costs	94	80
Pension costs (see note 18)	41	55
Total employees' remuneration	937	603

10. Remuneration of Directors

	2018 US\$000	2017 US\$000
Directors' remuneration:		
Emoluments	478	337
Company contributions to pension schemes	27	18
	505	355
Remuneration of the highest paid Director:		
Emoluments	431	292
Company contributions to pension schemes	27	18
	458	310

Details of transactions with Directors during the year are disclosed in note 22.

Retirement benefits are accruing to one Director under the Company's defined contribution pension scheme (2017: one).

11. Taxation

	2018 US\$000	2017 US\$000
Current taxation		
UK Corporation tax on loss for the year	-	-
Group relief recoverable at non-standard rates	178	(192)
Taxation	178	(192)
Loss on ordinary activities before taxation	(4,720)	(16,066)
Taxation at standard UK corporation tax rate of 19% (2017: 19.25%)	897	3,093
Effects of:		
(Income)/expenses not taxable/deductible for tax purposes	(636)	(2,297)
Foreign exchange	(129)	(658)
Group relief surrenders	(132)	(138)
Group relief recoverable at non-standard rates	178	(192)
Taxation	178	(192)

Effective 1 April 2017 the UK corporation tax rate reduced from 20% to 19%. A further reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted in March 2016 and has therefore been considered when calculating deferred tax at the reporting date. Deferred tax balances at the reporting date are measured at 17% (2017: 17%).

There is an unrecognised deferred tax asset of \$0.118million (2017: \$0.201 million) in respect of accumulated losses that has not been recognised, as it is not certain that the Company will be able to realise this asset by generating sufficient future taxable profits.

12. Dividends

No dividends were paid during the year (2017: \$nil).

13. Investments in subsidiary undertakings

	2018 US\$000	2017 US\$000
Investment in subsidiary undertakings		
Cost		
Balance at 1 January	79,687	63,848
Disposal of subsidiary undertaking	(11,607)	-
Subsidiary undertakings liquidated	(16,690)	-
Shares issued by subsidiary undertakings	-	15,839
Investment in subsidiary undertakings total cost	51,390	79,687
Provisions for impairment		
Balance at 1 January	(63,857)	(31,967)
Disposal of subsidiary undertaking	8,809	-
Subsidiary undertakings liquidated	16,690	-
Impairment charge	(4,154)	(31,890)
Investment in subsidiary undertakings total provisions for impairment	(42,512)	(63,857)
Carrying amount	8,878	15,830

The carrying amount of subsidiary undertakings is based on an assessment of the value in use of the investments. Impairment losses were recognised in the year as a result of changes in the recoverable amounts of these investments.

The Company liquidated and sold a number of its investments over the course of the year. The Company has the following investments in subsidiary undertakings and other interests at the year-end:

<u>Subsidiary undertakings</u>	<u>Place of incorporation</u>	<u>Principal activity</u>	<u>Portion of ownership interest and holding</u>
CX Reinsurance Company Limited *	United Kingdom	Carrying out of reinsurance contracts	100% - 343,920,000 £1 A ordinary shares and 4,280 £1 B ordinary shares
ICL Holdings Incorporated *	United States Delaware	Holding company	100% - 100 \$0.01 common stock shares
Island Capital Limited **	Bermuda	Effecting the recovery and monetisation of assets	100% - 46,578 \$1.50 class A common stock shares. 381,000 \$1.50 class B common stock shares
Tawa Management (Bermuda) Limited *	Bermuda	Insurance manager	100% - 12,000 \$1 ordinary shares
Other interests			Portion of interest and holding
LGIC Holdings, LLC *	Delaware	Holding company	51% - 510 common stock \$0.01 and 2,000 preferred stock \$100
Walshire Assurance Company	Pennsylvania	Holding company	51% - indirect ownership
Lincoln General Insurance Company	Pennsylvania	Carrying out of insurance contracts	51% - indirect ownership (in liquidation)

The Company had the following investments at the start of the year, which were liquidated or sold during the current year:

<u>Subsidiary undertakings</u>	<u>Place of incorporation</u>	<u>Principal activity</u>	<u>Portion of ownership interest and holding</u>
Amberley Alternative Assets Limited *	United Kingdom	Acquisition of debt	100% - 1 £1 ordinary shares
Lodestar Marine Limited * (sold 1 June 2018)	United Kingdom	Managing General Agent ("MGA")	100% - 100 £0.10 A ordinary shares and 9,259,032 £1 preference shares
Pocono Holdings Limited *	United Kingdom	Holding company	100% - 300 £1 ordinary shares. 10,926,416 £1 unpaid preference shares
Q360 Limited	United Kingdom	Dormant	100% - 2,200 £0.10 A ordinary shares. 350 £0.10 B ordinary shares. 1,850 £0.10 C ordinary shares. 100 £0.10 D ordinary shares. 4,759,086 £1 redeemable preference shares
Tawa Management Limited *	United Kingdom	Insurance intermediary	100% - 1 £1 ordinary share

* Held directly by Tawa Associates Limited ** 5.7% held directly by Tawa Associates Limited

14. Other debtors

	2018 US\$000	2017 US\$000
Other debtors - due within one year		
Due from: Group undertakings	341	254
Due from: related parties	271	180
Other debtors	53	347
Total other debtors - due within one year	665	781

15. Cash at bank and in hand

Cash at bank and in hand includes an amount of \$0.631 million (2017: \$nil) held in escrow with solicitor EC3 Legal LLP. The buyer of subsidiary undertaking Lodestar Marine Limited deposited funds into escrow on 1 June 2018 for a period of 18 months, terminating 1 December 2019. The escrow account is administered by the solicitor and funds may be released to the buyer if certain conditions are met. The Directors have not received any notification of a claim and are of the opinion that the full amount will be released to the Company on expiry of the escrow period. Due to the conditions of the escrow agreement the cash is restricted and not available for use by the entity.

16. Other creditors

	2018 US\$000	2017 US\$000
Other creditors - due within one year		
Deferred consideration	(380)	(891)
Accruals and deferred income	(131)	(158)
Due to: Group undertakings	-	(166)
Other creditors	(51)	(65)
Total other creditors - due within one year	(562)	(1,280)

The provision for deferred consideration is in respect of the acquisition of ICL Holdings Incorporated, Island Capital (Europe) Limited (now liquidated) and Island Capital Limited is payable by 2019 and is an estimate. The actual amount payable is dependent on the dividend pay-outs of its subsidiary.

17. Called up share capital

	2018 GP£	2017 GP£
Allotted issued and fully paid:		
112,492,198 ordinary shares of 0.0001p	112	112

The Company has one class of ordinary shares which carry no right to fixed income.

18. Retirement benefit schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Company in funds under the control of trustees.

The total cost charged to the profit and loss account of \$0.041 million (2017: \$0.055 million) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. As at 31 December 2018, no contributions were due in respect of the current reporting period that had not been paid over to the schemes (2017: \$nil).

19. Contingent liabilities

The Company has exposure to potential litigations relating to companies acquired or sold by the Company. Having reviewed the latest information available, the Directors are of the opinion that any expense in excess of what has been provided in the accounts is remote and therefore no additional provisions are required.

20. Commitments

The Company entered into an eight-month operating lease on 19 April 2018 in relation to the rental of its offices. On 16 November 2018 this lease was renewed for a further twelve-months to 14 December 2019. The rent obligation payable per the lease is £125,496 (2017: n/a). Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018 US\$000	2017 US\$000
Operating leases which expire: In less than 1 year	169	-

21. Subsequent events

On 5 February 2019 the Company received a dividend of \$0.683 million from its subsidiary Island Capital Limited and expects a further dividend of \$1.904 million to be received in April 2019.

22. Related party transactions

The following have been identified as related parties of the Company for the year to 31 December 2018:

- Subsidiary undertakings;
- Companies subject to common control:
 - ACHP plc;
 - RRRD Services Limited (“RRRDs”);
 - AAA Trustee Limited (“AAA Trustee”); and
 - Christie Manson and Woods Limited (“Christie’s”).
- Directors of the Company;
- Key management personnel: and
- Parent company and ultimate controlling party.

Subsidiary undertakings

FRS 102 paragraph 33.1A exempts disclosure of transactions entered into between members of the group, provided that the subsidiary undertakings party to the transactions are wholly owned by the Company. Therefore, transactions and balances between the Company and wholly owned subsidiary undertakings are not disclosed in this note.

Companies subject to common control

ACHP plc

During the year the Company charged ACHP plc \$0.298 million (2017: \$0.128 million) for management fees. As at 31 December 2018 ACHP plc owed the Company \$0.071 million (2017: \$0.128 million).

RRRDs

During the year the Company charged RRRDs \$0.035 million (2017: \$0.026 million) for expenses recharged. As at 31 December 2018 RRRDs owed the Company \$0.005 million (2017: \$0.026 million).

AAA Trustee

During the year the Company charged AAA Trustee \$0.079 million (2016: \$0.077million) for management fees. As at 31 December 2018 AAA Trustee owed the Company \$0.004 million (2017: \$0.011 million).

Christie’s

The Company agreed to surrender 2017 tax losses of £0.997 million and 2018 tax losses of £0.6 million to Christie’s for £0.095/\$0.122 million and £0.057/\$0.073 million respectively (2017: 2016 tax losses for £-0.192 million), as disclosed in note 11. As at 31 December 2018 Christie’s owed the Company \$0.192 million (2017: \$0.180 million).

Directors of the Company

Directors' remuneration is disclosed in note 10.

Key management personnel

The Company has taken advantage of the FRS 102 paragraph 1.12(e) disclosure exemption available to it in respect of remuneration to key management personnel.

Parent company and ultimate controlling party

The ultimate parent company is Financière Pinault S.C.A., a Société en commandite simple incorporated in France. The parent undertaking of the largest group which includes the Company and for which group accounts are prepared is Financière Pinault S.C.A., a company incorporated in France. Copies of the group financial statements of Financière Pinault S.C.A. may be obtained from the Tribunal de Commerce de Paris, 1 Quai de Corse, 75004, Paris, France.

During the year Financière Pinault S.C.A. charged the Company no fees (2017: \$nil). As at 31 December 2018 the Company owed Financière Pinault S.C.A. \$nil (2017: \$nil).

