

SUN ALLIANCE AND LONDON INSURANCE PLC

Report and Accounts

for the year ended 31 December 2006

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Sun Alliance and London Insurance plc
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Sun Alliance and London Insurance plc
Company information

Directors

R J Clayton

D P Cockrem

I A Craston

M G Culmer

M Harris

Secretary

L Thomas

Registered office

St Mark's Court
Chart Way
Horsham
West Sussex
RH12 1XL

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Sun Alliance and London Insurance plc

Directors' report

for the year ended 31 December 2006

The directors present their report and the audited financial statements for the year ended 31 December 2006

Business Review and principal activities

The principal activity of the Company is the transaction of insurance business through its branches in Hong Kong, Singapore and Germany. The results for the Company show a profit on ordinary activities before tax of £12.7m (2005: £9.7m) for the year and gross premiums written of £51.7m (2005: £38.1m).

The shareholders' funds of the Company were £663.1m as at 31 December 2006 (31 December 2005: £648.5m).

Future outlook

The Company is focused on driving strong retention of business and in building momentum in its target markets overseas to deliver profitable growth. The Company is committed to disciplined risk selection and underwriting and to the delivery of sustainable earnings.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated within the risks of the Royal and Sun Alliance Group plc (the Group) and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are set out in the estimation techniques, uncertainties and contingencies on pages 50 to 52, and in the risk framework on pages 20 to 23 of the Annual Report & Accounts of the Group which do not form part of this report.

A discussion on the management of financial risk is set out below.

Key performance indicators

The directors of Royal & Sun Alliance Group manage the Group's operations on a divisional basis. For this reason the Company's directors believe that analysis using key performance indicators (KPIs) for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. Financial KPIs are detailed in the Annual Report & Accounts of the Group (which do not form part of this report) within the Group CEO review on pages 6 to 9 and the regional business reviews on pages 12 to 17. This document also includes non-financial KPIs which are detailed in the regional business reviews on pages 12 to 17, the corporate responsibility report on pages 24 to 25 and the directors' report on pages 29 to 30.

Dividends

The directors do not recommend the payment of a dividend (2005: £nil).

Directors

The names of the current directors are listed on page 2. Mr M G Culmer, Mr M Harris, Mrs D P Cockrem and Mr I A Craston held office throughout the year. Mrs H M Maxwell served as a director until her resignation on 8 January 2007 and Mr R J Clayton was appointed a director on the same date.

Management of financial risk

The Company invests its available resources in financial assets. The management of financial risk is undertaken in accordance with policies established by the parent company to ensure financial risk is properly managed at Group level. In addition, the investment policy at Company level is expected to ensure that the Company is able to meet its obligations under the rules of the Financial Services Authority applicable to insurance companies. These rules are intended to ensure that the Company is able to meet its obligations to policyholders and that in addition an adequate level of regulatory solvency is met at all times. The Company is not party to any arrangements for which hedge accounting is used.

Auditors

So far as each director is aware, there is no relevant audit information (as defined in Section 234ZA(3) of the Companies Act 1985) of which the Company's auditors are unaware, and each director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of, and to establish that the auditors are aware of, any relevant audit information

Following an extensive review process by the Royal & Sun Alliance Insurance Group plc (the Company's ultimate parent company), Deloitte & Touche LLP are being proposed for appointment as auditors for all UK companies within the Royal & Sun Alliance Insurance group for the year ending 31 December 2007. PricewaterhouseCoopers LLP will stand down to enable Deloitte & Touche LLP to be proposed for appointment in their place at the Company's forthcoming Annual General Meeting.

By order of the board



L. Thomas
Secretary
21 June 2007

Sun Alliance and London Insurance plc
Statement of directors' responsibilities

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2006. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis

The directors have responsibility for ensuring that the Company keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Sun Alliance and London Insurance plc

Independent auditors' report

Independent auditors' report to the members of Sun Alliance and London Insurance plc

We have audited the financial statements of Sun Alliance and London Insurance plc for the year ended 31 December 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the movement in shareholders' funds, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements.

In addition we 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.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

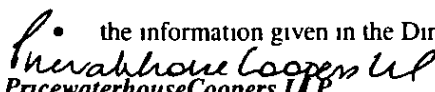
Equalisation provisions

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation provisions in respect of general insurance business. The nature of equalisation provisions, the amounts set aside at 31 December 2006 and the effect of the movement in those provisions during the year on the general business technical result and profit before tax are disclosed in note 14.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

21 June 2007

Financial statements

The financial statements are prepared in accordance with applicable UK accounting standards, the Statement of Recommended Practice (SORP) Accounting for Insurance Business issued by the Association of British Insurers in December 2005 and the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985. The Company being a wholly owned subsidiary whose ultimate parent company prepares consolidated accounts has taken advantage of section 228 of the Companies Act 1985, in not preparing consolidated accounts.

The financial statements have been prepared under the historical cost account rules modified to include the revaluation of investments. The Company's accounting policies are set out on pages 7 to 8.

Translation of foreign currencies

Overseas branch assets and liabilities of businesses denominated in foreign currencies are translated into sterling at rates ruling at the year end and results of overseas business denominated in foreign currencies are translated at the average rate for the period, the resulting exchange differences are taken to reserves.

General business technical account

General business is accounted for on an annual basis. Premiums written are accounted for in the year in which the related risks commence and include estimates where the amounts are determined at the balance sheet date. Premiums written exclude taxes and duties levied on premiums. The commission and other acquisition costs incurred in writing the business are deferred and amortised over the period in which the related premiums are earned.

Claims paid represent all payments made during the period whether arising from events during that or earlier periods.

The balance on the general business technical account is arrived at after taking account of changes in the equalisation provision.

Technical provisions

The provision for unearned premiums represents the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date, calculated principally on a daily pro-rata basis.

The provision for claims outstanding whether reported or not, comprises the estimated cost of claims incurred but not settled at the balance sheet date. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation trends and after recognition of the potential time elapsed in the notification, development and settlement of claims.

Differences between the estimated cost and subsequent settlement are dealt with in the appropriate technical account for the year in which the claims are settled or re-estimated.

Provision is made, based on information available at the balance sheet date, for any estimated future underwriting losses relating to unexpired risks after taking into account future investment income on relevant technical provisions. The unexpired risk provision is assessed in aggregate for business classes which in the opinion of the directors are managed together.

Equalisation provisions are established in accordance with the requirements of legislation and are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date.

Tangible assets and depreciation

Tangible assets comprise fixtures, fittings and equipment (including computers and motor vehicles) which are capitalised and depreciated on a straight line basis over periods not exceeding their estimated useful lives (between three and ten years) after taking into account residual value.

Goodwill

Goodwill, being the difference between the cost of an acquisition and the fair value of the net tangible assets acquired, arising on the acquisition, is capitalised in the balance sheet and amortised to the profit and loss account on a straight line basis. The cost of acquisition is the amount of cash paid and the fair value of other purchase consideration given together with associated expenses. The period of amortisation, which does not exceed 20 years, is determined by an assessment of the useful economic life of the goodwill, this being the period over which the value of the businesses acquired are expected to exceed the value of their underlying assets.

Goodwill is reviewed for impairment at the end of the first full year following an acquisition and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Operating leases

Payments under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Pension costs

The cost of providing pensions for the Company's employees in defined contribution schemes is recognised as the contributions become payable.

Investment return

Income from investments is included in the profit and loss account on an accruals basis. Dividend income on ordinary shares is recognised when the related investment goes 'ex-dividend'.

Realised and unrealised gains and losses are dealt with in the non-technical account. Realised gains and losses represent the net sale proceeds less the purchase price.

Taxation

Taxation in the non-technical account is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years. UK tax in respect of overseas subsidiaries and principal associated undertakings is based on dividends received.

Deferred tax is provided in full and consists of the estimated taxation or relief from taxation which is expected to arise from material timing differences using rates based on tax rates and laws that have been substantively enacted by the balance sheet date. Provision is made for taxation which might arise on the distribution of profits retained by overseas subsidiaries or associated undertaking only to the extent that dividends have been accrued as receivable. Credit is taken for relief for trading and other losses only to the extent that the directors anticipate that suitable profits will absorb such losses in future periods.

Deferred tax balances that derive from undiscounted cash flows and for which the impact of discounting is material have been discounted using appropriate rates.

Investments

Investments are shown at market value, for which purpose unlisted investments, mortgages and loans are included at directors' valuation and properties at professional valuation. For listed securities the stock exchange values are used. Properties are valued annually at open market value.

Investments in subsidiaries are included at net asset value.

Sun Alliance and London Insurance plc

Estimation techniques, contingencies and uncertainties

Estimation techniques, uncertainties and contingencies

Introduction

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the insurance liabilities of the Company.

The insurance liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for outstanding claims. Unearned premiums and unexpired risks represents the amount of income set aside by the Company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the balance sheet date. Outstanding claims represents the Company's estimate of the cost of settlement of claims that have occurred by the balance sheet date but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty as regards the eventual outcome of the claims that have occurred by the balance sheet date but remain unsettled. This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Estimation Techniques

Claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the levels of unpaid claims, legislative changes, judicial decisions and economic conditions.

Where possible the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Company's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

- the development of previously settled claims, where payments to date are extrapolated for each prior year,
- estimates based upon a projection of claims numbers and average cost,
- notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years, and
- expected loss ratios

In addition, the Company uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Company also uses bespoke methods for specialist classes of business. In selecting its best estimate, the Company considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjuster's estimates or projected separately in order to allow for the future development of large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Estimation techniques, contingencies and uncertainties (continued)

The claims provisions are subject to close scrutiny both within the Company's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisors who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. The results of these reviews are considered when establishing the appropriate levels of provisions for outstanding claims and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of insurance liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate. This technique means that the estimate is inevitably deterministic rather than stochastic. A stochastic valuation approach, whereby a range of possible outcomes is estimated and probabilities assigned thereto, is only possible in a limited number of situations.

Uncertainties and contingencies

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss,
- uncertainty as to the extent of policy coverage and limits applicable,
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring, and
- uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Company. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for long tail lines of business. The Company seeks to provide appropriate levels of claims provision and provision for unexpired risks taking the known facts and experience into account.

The Company evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Company.

Sun Alliance and London Insurance plc

Profit and loss account

for the year ended 31 December 2006

Technical account - general business

	Notes	2006 £m	2005 £m
Gross premiums written	1	51.7	38.1
Outward reinsurance premiums		(15.6)	(10.5)
Net premiums written		36.1	27.6
Change in the gross provision for unearned premiums		2.0	0.8
Change in the provision for unearned premiums, reinsurers' share		-	(2.4)
Change in the net provision for unearned premiums		2.0	(1.6)
Earned premiums, net of reinsurance		38.1	26.0
Claims paid			
Gross amount		(17.7)	(19.9)
Reinsurers' share		4.2	8.7
		(13.5)	(11.2)
Change in the provision for claims			
Gross amount		-	2.7
Reinsurers' share		(1.5)	(3.2)
		(1.5)	(0.5)
Claims incurred, net of reinsurance		(15.0)	(11.7)
Net operating expenses	2	(13.5)	(9.7)
Change in the equalisation provision	14	-	-
Balance on the technical account for general business		9.6	4.6

The notes on pages 15 to 21 form an integral part of these accounts

Sun Alliance and London Insurance plc

Profit and loss account

For the year ended 31 December 2006

Non-technical account

	Notes	2006 £m	2005 £m
Balance on the technical account for general business		9.6	4.6
Investment income	4	4.3	2.6
Investment expenses and charges	4	(0.1)	(0.1)
Unrealised gains on investments	4	1.5	2.6
Amortisation of goodwill	17	(2.6)	-
Profit before taxation		12.7	9.7
Taxation on profit on ordinary activities	5	5.1	17.5
Profit on ordinary activities after taxation		17.8	27.2

All figures relate to continuing operations

Statement of total recognised gains and losses

	Revaluation reserve £m	Profit and loss account £m	2006 £m	2005 £m
Profit for the financial year	-	17.8	17.8	27.2
Foreign exchange losses	-	(0.6)	(0.6)	(0.4)
Impairment of investments in subsidiaries	(2.6)	-	(2.6)	(0.8)
Shareholders' recognised (losses)/gains arising in the year	(2.6)	17.2	14.6	26.0

Statement of historical cost profits and losses

There is no material difference between the results for the current year and the previous year as described in the profit and loss account and the results on an historical cost basis. Accordingly a note on the historical profits and losses for the year is not given.

Reconciliation of movements in shareholders' funds

	Share capital/ premium £m	Revaluation reserve £m	Profit and loss account £m	2006 £m	2005 £m
Shareholders' funds at 1 January	472.1	76.0	100.4	648.5	622.5
Shareholders' recognised (losses)/gains	-	(2.6)	17.2	14.6	26.0
Shareholders' funds at 31 December	472.1	73.4	117.6	663.1	648.5

The notes on pages 15 to 21 form an integral part of these accounts

Sun Alliance and London Insurance plc

Balance sheet as at 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Intangible assets	17	-	2 8
Investments			
Investments in subsidiary undertakings	9	1,068.1	1,069 7
Other financial investments	9	108.1	125 3
Deposits with ceding undertakings		2.5	2 0
Total Investments		1,178.7	1,197 0
Reinsurers' share of technical provisions			
Provision for unearned premiums		5.5	6 3
Claims outstanding		12.1	15 0
		17.6	21 3
Debtors			
Debtors arising out of direct insurance operations	10	14.3	13 9
Debtors arising out of reinsurance operations	11	1.8	2 7
Other debtors	12	488.0	472 7
		504.1	489 3
Other assets			
Tangible assets	13	0.1	0 2
Cash at bank and in hand		1.8	4 8
		1.9	5 0
Prepayments and accrued income			
Accrued interest and rent		1 0	0 8
Deferred acquisition costs		4.4	5 2
		5.4	6 0
Total assets		1,707.7	1,721 4

The notes on pages 15 to 21 form an integral part of these accounts

Sun Alliance and London Insurance plc

Balance sheet (continued) as at 31 December 2006

	Notes	2006 £m	2005 £m
Liabilities			
Capital and reserves			
Called up share capital	7	201.8	201.8
Share premium account		270.3	270.3
Revaluation reserve	8	73.4	76.0
Profit and loss account	8	117.6	100.4
Equity shareholders' funds		663.1	648.5
Technical provisions			
Provision for unearned premiums		26.7	32.0
Claims outstanding		56.5	63.3
Equalisation provision	14	0.8	0.8
		84.0	96.1
Provision for other risks and charges			
Deferred tax liability	5	6.6	6.6
Creditors			
Creditors arising out of direct insurance operations		0.8	2.9
Creditors arising out of reinsurance operations		4.7	3.9
Other creditors including taxation and social security	15	947.2	961.8
		952.7	968.6
Accruals and deferred income		1.3	1.6
Total liabilities		1,707.7	1,721.4

The notes on pages 15 to 21 form an integral part of these accounts

The accounts were approved by the Board of Directors and are signed on its behalf by



Director
21 JUNE 2007

Sun Alliance and London Insurance plc

Notes to the accounts

1. Segmental information

	Direct Accident & Health £m	Direct Motor TPL £m	Direct Motor Other £m	Direct Fire Property £m	Marine Aviation & Transport £m	Direct Total £m	Reinsurance Acceptances £m	Total £m
2006								
Gross premiums written	19.1	2.2	6.0	21.0	3.4	51.7	-	51.7
Gross premiums earned	20.3	2.4	6.1	21.6	3.3	53.7	-	53.7
Gross claims incurred	(5.4)	(3.9)	(2.6)	(5.9)	0.1	(17.7)	-	(17.7)
Gross operating expenses	(5.2)	(0.8)	(2.2)	(5.3)	(1.5)	(15.0)	-	(15.0)
Gross technical result	9.7	(2.3)	1.3	10.4	1.9	21.0	-	21.0
Reinsurance balance	(5.3)	3.0	(0.2)	(6.7)	(2.2)	(11.4)	-	(11.4)
Net technical result	4.4	0.7	1.1	3.7	(0.3)	9.6	-	9.6
2005								
Gross premiums written	8.6	1.3	5.8	7.5	1.0	24.2	13.9	38.1
Gross premiums earned	11.1	1.2	5.7	5.3	1.2	24.5	14.4	38.9
Gross claims incurred	(2.7)	0.0	(1.3)	(0.8)	(1.2)	(6.0)	(11.2)	(17.2)
Gross operating expenses	(3.3)	(0.5)	(2.1)	(1.3)	(0.5)	(7.7)	(3.1)	(10.8)
Gross technical result	5.1	0.7	2.3	3.2	(0.5)	10.8	0.1	10.9
Reinsurance balance	(3.2)	(0.3)	(2.2)	(3.6)	0.5	(8.8)	2.5	(6.3)
Net technical result	1.9	0.4	0.1	(0.4)	0.0	2.0	2.6	4.6

Gross premiums written can be analysed as follows

	Gross premiums written 2006 £m	Gross premiums written 2005 £m
Hong Kong	35.3	24.1
Singapore	16.3	13.9
Germany	0.1	0.1
Total	51.7	38.1

2. Net operating expenses

Technical account – general business

	2006 £m	2005 £m
Acquisition costs	3.4	3.6
Change in deferred acquisition costs	0.2	(1.4)
Administrative expenses	9.9	7.5
Net operating expenses	13.5	9.7

3. Employees information

	2006 £m	2005 £m
Staff costs amounted to		
Wages and salaries	4.2	3.3
Pension costs	0.3	0.3
	4.5	3.6

The average monthly number of persons employed during the year was

	2006	2005
Overseas	163	89

Sun Alliance and London Insurance plc

Notes to the accounts (continued)

4. Investment return

	2006 £m	2005 £m
Income from other investments	4.8	2.6
Realised investment losses	(0.5)	-
Investment management expenses, including interest	(0.1)	(0.1)
Unrealised gains on investments	1.5	2.6
Total investment return	5.7	5.1

5 Taxation

The tax on profit on ordinary activities credited in the profit and loss account is as follows -

	2006 £m	2005 £m
Current Tax		
UK Corporation tax	(3.3)	(5.9)
Adjustments in respect of prior periods	(2.0)	(14.1)
Double taxation relief	(1.7)	(0.9)
Foreign tax	1.9	2.0
Total current tax	(5.1)	(18.9)
Deferred Tax		
Timing differences – origination and reversal	-	1.1
Movement in discount	-	0.3
Total deferred tax	-	1.4
Tax credit	(5.1)	(17.5)

UK corporation tax for the current year is based on a rate of 30% (2005 30%)

Factors affecting the current tax credit

The current tax credit for the year is less than (2005 less than) 30% due to the items set out in the reconciliation below

	2006 £m	2005 £m
Profit on ordinary activities before taxation	12.7	9.7
Foreign exchange gains	(0.6)	(0.4)
	12.1	9.3
Tax at 30%	3.8	2.8
Factors affecting charge:		
Disallowed expenditure	0.8	0.1
Fiscal adjustments	(7.9)	(7.9)
Adjustment to prior year provisions	(2.0)	(14.1)
Other timing differences	-	(0.9)
Unrelieved foreign tax credits	0.2	1.1
Current tax credit for the period	(5.1)	(18.9)

5. Taxation (cont.)

Balance Sheet presentation of the deferred tax provision

	2006 £m	2005 £m
Unrealised appreciation	6.6	6.6
Deferred tax liability	6.6	6.6

Provision for liabilities and charges: deferred tax

	2006 £m	2005 £m
At 1 January	6.6	5.2
Credited	-	1.4
Deferred tax liability	6.6	6.6

6. Pension costs

The majority of the Company's staff are employed in Hong Kong and Singapore, the pension costs disclosed in note 3 relate to contributions made by the Company into the Hong Kong and Singapore government sponsored schemes and an expatriate scheme, which are contribution based

7. Share capital

	2006 £m	2005 £m
Ordinary share capital		
Authorised		
900,000,000 (2005 900,000,000) shares of 25p each	225.0	225.0
Issued and fully paid		
807,390,126 (2005 807,390,126) shares of 25p each	201.8	201.8

8. Reserves

	Profit and loss account		Revaluation reserve	
	2006 £m	2005 £m	2006 £m	2005 £m
Balance at 1 January	100.4	73.6	76.0	76.8
Profit and loss account transfer	17.8	27.2	-	-
Foreign exchange losses	(0.6)	(0.4)	-	-
Impairment of investments in subsidiaries	-	-	(2.6)	(0.8)
Balance at 31 December	117.6	100.4	73.4	76.0

Sun Alliance and London Insurance plc

Notes to the accounts (continued)

9. Investments

	2006 £m	2005 £m
Investments in subsidiary undertakings (note 16)	1,068.1	1,069.7

Other financial investments:

	2006 £m	2005 £m
Shares and other variable yield securities and units in unit trusts	26.0	24.3
Debt securities and other fixed income securities	46.2	46.1
Other loans	0.1	0.1
Deposits with credit institutions	35.8	54.8
	108.1	125.3

Included above are listed investments

	2006 £m	2005 £m
Shares and other variable yield securities and units in unit trusts	26.0	24.3
Debt securities and other fixed income securities	46.1	46.1

The historical cost of investments is £1,080.3m (2005 £1,097.8m)

10. Debtors arising out of direct insurance operations

	2006 £m	2005 £m
Due from intermediaries	14.3	13.9

11. Debtors arising out of reinsurance operations

	2006 £m	2005 £m
Due from external debtors	1.8	2.7

12. Other debtors

	2006 £m	2005 £m
Due from external debtors	29.6	22.4
Due from parent company and fellow subsidiaries	458.4	450.3
	488.0	472.7

13. Tangible assets

	2006 £m	2005 £m
Cost		
Balance at 1 January	2.0	0.5
Exchange	(0.1)	0.1
Purchases	-	3.6
Disposals	(1.5)	(2.2)
Balance at 31 December	0.4	2.0
Depreciation		
Balance at 1 January	1.8	0.4
Exchange	(0.1)	0.1
Charge for the year	(1.1)	3.4
Disposals	(0.3)	(2.1)
Balance at 31 December	0.3	1.8
Net book value at 31 December	0.1	0.2

Tangible assets comprise computers and office equipment

Sun Alliance and London Insurance plc

Notes to the accounts (continued)

14. Equalisation provision

The equalisation provision of £0.8m (2005 £0.8m) comprises amounts set aside in accordance with the Financial Services Authority's rules to equalise loss ratios in future years in respect of certain classes of business which display a high degree of claims volatility. They are required by the Companies Act 1985 to be included within technical provisions in the balance sheet. However, there was no liability for such amounts at the balance sheet date and, as such, these amounts are over and above the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. The movement in the equalisation provision during the year has had the effect of adjusting the balance on the general business technical account and profit before tax by £Nil (2005 £Nil).

15. Other creditors including taxation and social security

	2006 £m	2005 £m
Due to external creditors	2.3	2.9
Due to subsidiaries	944.9	958.9
	947.2	961.8

16. Investment in subsidiary undertakings

The Company's principal subsidiary companies at 31 December 2006 are set out on page 21. The companies are all engaged in the transaction of insurance or related business. The countries shown are those of incorporation and principal operation. Except where otherwise indicated all holdings are of equity shares and represent 100% of the nominal issued capital. The figure for investment in subsidiary companies comprises:

	2006 £m	2005 £m
Shares at cost		
At 1 January	993.7	993.7
Capital injections	1.0	-
At 31 December	994.7	993.7
Adjustment to net asset value	73.4	76.0
	1,068.1	1,069.7

17. Intangible Assets

Goodwill arising in business acquired in 2005 from Royal & Sun Alliance (Hong Kong) Ltd, was fully amortised during 2006.

18. Auditors' remuneration

The fee for the audit of the Company's accounts was £12,000 (2005 £11,500) which was borne by a parent company.

19. Directors remuneration

None of the directors received any emoluments from the Company during the year (2005 £Nil). All the directors receive remuneration from Royal & Sun Alliance Insurance plc as employees of that company, and it is not appropriate, because of the non-executive nature of their services, to make an apportionment of their emoluments in respect of the Company.

20. Contingent liabilities

At 31 December 2006 the Company had no material contingent liabilities.

Sun Alliance and London Insurance plc

Notes to the accounts (continued)

21. Cash flow

The Company is a wholly owned subsidiary of Royal & Sun Alliance Insurance plc and the cash flows of the Company are included in the consolidated cash flow statement of Royal & Sun Alliance Insurance Group plc. The Company has thus taken advantage of the exemption permitted by FRS 1 (revised) and has elected not to prepare its own cash flow statement.

22. Transactions with related parties

Advantage has been taken of the exemption provided in FRS8 from disclosing details of transactions with Royal & Sun Alliance Insurance Group plc and its subsidiaries and associated undertakings.

23. Parent companies

The Company's immediate parent company is Royal & Sun Alliance Insurance plc which is registered in England and Wales.

The Company's ultimate parent company and controlling party is Royal & Sun Alliance Insurance Group plc which is incorporated in Great Britain and registered in England and Wales, and is the parent undertaking of the largest and smallest group to consolidate these financial statements. A copy of that company's accounts can be obtained from 9th floor, One Plantation Place, 30 Fenchurch Street, London EC3M 3BD.

Sun Alliance and London Insurance plc

Notes to the accounts (continued)

Principal subsidiary companies

Name and country of incorporation And of principal operations	Percentage of ordinary shares held	
	By Parent Company	Through Subsidiaries
United Kingdom	%	%
<i>(registered in England unless indicated)</i>		
Acrecrest Ltd	100 0	
Beacon Insurance Company Ltd (note 1)	100 0	
Directors & Officers Ltd		100 0
Guildhall Insurance Co Ltd	100 0	
Elders Insurance Company Ltd (note 2)	100 0	
Fortress Insurance Company Ltd (note 3)	100 0	
Hazard Management Ltd		100 0
R&SA 4 Limited (previously known as Legal Protection Group Holdings Ltd)		100 0
Liverpool Marine & General Insurance Company Ltd	100 0	
London Guarantee & Reinsurance Co Ltd	100 0	
National Vulcan Engineering Insurance Group Ltd		100 0
R&SA 1 Limited (previously Phoenix Metropolitan Investments Ltd) (note 4)	100 0	
Property Growth (Holdings) Ltd	100 0	
Sun Alliance Financial Risks Ltd		100 0
Sun Alliance Insurance International Ltd	100 0	
Sun Alliance Insurance UK Ltd	100 0	
Sun Alliance Management Services Ltd	100 0	
The Century Insurance Co Ltd <i>(registered in Scotland)</i>	100 0	
The Northern Maritime Insurance Company Ltd	100 0	
The Union Marine and General Insurance Company Ltd	100 0	

Notes:

- 1 Beacon Insurance Company Ltd was put into liquidation in April 2007
- 2 Elders Insurance Company Ltd was put into liquidation in November 2006
- 3 Fortress Insurance Company Ltd was put into liquidation in November 2006
- 4 RSA 1 Limited was liquidated in March 2007