

CAVELL HOLDINGS LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2008

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REPORT AND FINANCIAL STATEMENTS 2008

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Profit and loss account	7
Balance sheet	9
Notes to the accounts	10-13

REPORT AND FINANCIAL STATEMENTS 2008

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Rocke (resigned 12 June 2008)
S Aldous (resigned 6 November 2008)
D Reid
A Turner
G Nokes (appointed 12 June 2008)

SECRETARY

S Hextall

REGISTERED OFFICE

Avaya House
2 Cathedral Hill
Guildford
Surrey GU2 7YL

AUDITORS

Deloitte LLP
Chartered Accountants and Registered Auditors
London

DIRECTORS' REPORT

The directors present their annual report and the financial statements for the year ended 31 December 2008.

REVIEW OF THE BUSINESS

The Company is an investment parent undertaking whose subsidiary undertakings are engaged in the run-off of reinsurance business underwritten, together with the provision of insurance related services. The business was predominantly underwritten in the UK and through branches in Canada, Australia and New Zealand, and in Norway through Cirrus Reinsurance Company Limited AS.

The Company has claimed exemption under s246(4)(a) of the Companies Act 1985 from including an Enhanced Business Review within the directors' report.

FUTURE DEVELOPMENTS

The company will continue to provide services in connection with the insurance industry, concentrating on the provision of management services to insurance companies in run-off.

During 2009 the Company's immediate parent company, Virginia Holdings Limited, is seeking to simplify the structure of the group of companies it owns. As a result, it is anticipated that the Company will be wound up during the year, with Virginia Holdings Limited taking direct ownership of Cavell Insurance Company Limited. As required by FRS 18 Accounting Policies, the financial statements have been prepared on a basis other than that of a going concern. No material adjustments arose as a result of ceasing to apply the going concern basis.

IDENTIFICATION AND MANAGEMENT OF RISK

The company is exposed to financial risk, through its financial assets and liabilities, predominantly arising from the investment in Cavell Insurance Company Limited.

The most important components of these risks are: interest rate, currency, credit and liquidity risk in relation to financial assets. The company manages these risks by:

- Reviewing cash flow requirements to ensure liquidity needs are met.
- Matching foreign currency liabilities with corresponding currency assets to minimise the impact of movements in foreign exchange rates.
- Appointing third party investment managers with a view to ensuring the best possible returns on investments and minimising the impact of movements in interest rates.

Furthermore, the company regularly reviews the solvency of associated party reinsurers to minimise credit risk and ensure adequacy of recoverables.

RESULTS AND DIVIDENDS

The results of the company for the year ended 31 December 2008 are set out in the financial statements on pages 6 to 8.

The company made a post-tax profit for the year of £12,592 (2007 - £5,419). The investment in Cavell Insurance Company Limited increased by £8,449,000 during the year and this is further explained in note 7. No interim dividend has been paid in respect of 2008 (2007 - £nil) and the directors do not propose to pay a final dividend (2007 - £nil).

DIRECTORS AND DIRECTORS' INTERESTS

The present membership of the Board of Directors is shown on page 1.

Cavell Holdings Limited is 100% owned by an intermediate holding company, Virginia Holdings Limited (Bermuda). The ultimate holding company is Enstar Group Limited, a company registered in Bermuda.

The directors are exempt from the requirements to notify the company of interests in shares in that company and other group companies incorporated outside Great Britain. There are no other interests requiring disclosure.

CHARITABLE DONATIONS

No charitable donations were made in the year (2007 - £nil).

DIRECTORS' REPORT

AUDITORS

In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each director is aware, there is no relevant audit information (as defined in S234ZA of the Companies Act 1985) of which the company's auditors are unaware; and
- each of the Directors has taken all the 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to act as auditors. A resolution to reappoint Deloitte LLP as auditors to the company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



G Nokes
Director

25 SEPTEMBER 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group 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 UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CAVELL HOLDINGS LIMITED

We have audited the financial statements of Cavell Holdings Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, Reconciliation of Movement in Shareholders' Funds and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

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).

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 judgments 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.

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 2008 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.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
CAVELL HOLDINGS LIMITED (CONTINUED)**

Emphasis of matter – Financial Statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not qualified, we have onnsidered the adequacy of the disclosure made in the basis of preparation paragraph of the accounting policies, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Deloitte LLP

Deloitte LLP

Chartered Accountants and Registered Auditors

London

29 Sept ' 2009

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Administrative expenses		2	(7)
Investment income		11	12
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13	5
Tax charge/credit on profit on ordinary activities	5	-	-
RETAINED PROFIT FOR THE FINANCIAL YEAR		13	5

All transactions derive from continuing operations.

The notes on pages 10 to 13 form an integral part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Profit on ordinary activities after tax		13	5
Revaluation of subsidiary undertakings	7	8,449	3,033
Total recognised gains related to the year		<u>8,462</u>	<u>3,038</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Opening shareholders' funds		41,172	38,134
Total recognised gains related to the year		8,462	3,038
Closing shareholders' funds		<u>49,634</u>	<u>41,172</u>

The notes on pages 10 to 13 form an integral part of these accounts.

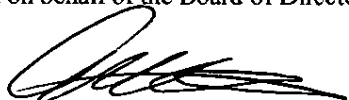
BALANCE SHEET
As at 31 December 2008

	Note	2008 £'000	2007 £'000
FIXED ASSETS			
Investments			
Shares in subsidiary undertakings	6	49,367	40,918
		<u>49,367</u>	<u>40,918</u>
CURRENT ASSETS			
Cash at bank and in hand		405	386
Other debtors		1	-
		<u>406</u>	<u>386</u>
CREDITORS: amounts falling due within one year			
Amounts owed to group undertakings		137	120
Other creditors		2	-
Accruals and deferred income		-	12
		<u>139</u>	<u>132</u>
NET CURRENT ASSETS			
		<u>267</u>	<u>254</u>
NET ASSETS			
		<u>49,634</u>	<u>41,172</u>
CAPITAL AND RESERVES			
Called up share capital	8	34,453	34,453
Share premium account	9	700	700
Profit and loss account	9	(358)	(371)
Revaluation reserve	9	14,839	6,390
EQUITY SHAREHOLDERS' FUNDS			
		<u>49,634</u>	<u>41,172</u>

The notes on pages 10 to 13 form an integral part of these accounts.

These financial statements were approved and authorised for issue by the Board of Directors on 25/9/2009

Signed on behalf of the Board of Directors



G Nokes

Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

1. ACCOUNTING POLICIES

a) Basis of preparation

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below.

As explained in the directors' report, it has been proposed that the Company will be wound up during the year. As required by FRS 18 Accounting Policies, the financial statements have been prepared on a basis other than that of a going concern. No material adjustments arose as a result of ceasing to apply the going concern basis.

b) Accounting convention

The financial statements are prepared under the historical cost convention.

c) Interest income

Investment income is accounted for on the accruals basis and constitutes interest income, realised and unrealised gains and losses on investments held.

d) Investments

Shares in subsidiary and associated undertakings are stated at the Company's share of net asset value as at the balance sheet date. Revaluations are taken to the revaluation reserve.

Other fixed asset investments are held on the balance sheet at market value and as designated fair value through the profit and loss account.

e) Expenses

All expenses are charged to the profit and loss account in the year in which they are incurred.

f) Taxation

Current tax, including UK Corporation Tax, is provided for in amounts expected to be paid using tax rates and laws enacted, or substantially enacted, at the balance sheet date.

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the year. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax balances are not discounted.

g) Cash flow statement

The company has taken advantage of the exemption under FRS 1 (revised) "Cash flow statement" not to prepare a cash flow statement as more than 90% of its voting rights are controlled within the Enstar Group (formerly known as the Castlewood Holdings Group), whose consolidated financial statements are publically available (see note 12).

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

2. ADMINISTRATIVE EXPENSES AND OTHER CHARGES

	2008 £'000	2007 £'000
Administrative expenses and other charges include:		
Auditors' remuneration		
- audit services	(3)	6
- non-audit services	-	1
	<u>(3)</u>	<u>7</u>

The auditors' remuneration for audit services in relation to these financial statements is £7,000 (2007, £6,000). The amount stated in the table above also takes account of the reversal of an over-accrual for audit fees made in the prior year.

The company has no employees (2007 – none).

3. DIRECTORS' EMOLUMENTS

The directors are not remunerated for their services by the Company. They are employees of Enstar (EU) Limited (formerly Castlewood (EU) Ltd). They are remunerated by Enstar (EU) Ltd. for their services to the group and they receive no remuneration as directors of this company.

4. INVESTMENT INCOME

	2008 £'000	2007 £'000
Income from other financial investments	11	12
	<u>11</u>	<u>12</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2008 £'000	2007 £'000
Analysis of charge in the year		
UK corporation tax on profit for the year	-	-
	<u>-</u>	<u>-</u>
Factors affecting tax charge for the year		
Profit on ordinary activities before tax	13	5
	<u>13</u>	<u>5</u>
Profit on ordinary activities multiplied by standard rate of tax in the UK of 28.5%	(4)	(2)
	<u>(4)</u>	<u>(2)</u>
Utilisation/(unutilised) tax losses	4	2
	<u>4</u>	<u>2</u>
	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Factors that may affect future tax charges

The company has tax losses arising in the UK of £70,006 (2007 - £82,544) that are available indefinitely for offset against future taxable profits of the company. Deferred tax assets have not been recognised in respect of these losses.

6. INVESTMENTS

	Current value		Historical cost	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Subsidiary undertakings	49,367	40,918	34,569	34,569
	<u>49,367</u>	<u>40,918</u>	<u>34,569</u>	<u>34,569</u>

7. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

At 31 December 2008 the Company owned 100% of the ordinary share capital of Cavell Insurance Company Limited, an insurance company registered in England. Cavell Insurance Company Limited owns 100% of the ordinary share capital of Cirrus Reinsurance Company Limited AS, a former reinsurance company incorporated in Norway which is to be liquidated in the coming months.

	2008 £'000	2007 £'000
Carrying value of shares in subsidiary undertakings brought forward	40,918	37,885
Revaluation in the year	8,449	3,033
Carrying value of shares in subsidiary undertakings carried forward	<u>49,367</u>	<u>40,918</u>

8. CALLED UP SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised:		
55,000,000 ordinary shares of £1 each	<u>55,000</u>	<u>55,000</u>
Allotted, issued and fully paid:		
34,452,517 ordinary shares of £1 each	<u>34,453</u>	<u>34,453</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

9. SHAREHOLDERS' FUNDS

	Share capital £'000	Share premium £'000	Profit & loss a/c £'000	Revaluation reserve £'000	Total £'000
2008					
Balance at 1 January	34,453	700	(371)	6,390	41,172
Profit on ordinary activities after taxation	-	-	13	-	13
Revaluation of subsidiary undertaking	-	-	-	8,449	8,449
Balance at 31 December	<u>34,453</u>	<u>700</u>	<u>(358)</u>	<u>14,839</u>	<u>49,634</u>
2007					
Balance at 1 January	34,453	700	(376)	3,357	38,134
Profit on ordinary activities after taxation	-	-	5	-	5
Revaluation of subsidiary undertaking	-	-	-	3,033	3,033
Balance at 31 December	<u>34,453</u>	<u>700</u>	<u>(371)</u>	<u>6,390</u>	<u>41,172</u>

10. EXEMPTION FROM PREPARING CONSOLIDATED ACCOUNTS

The company is exempt from preparing consolidated accounts under section 228A of the Companies Act 1985 since its ultimate parent company's consolidated accounts are prepared under US GAAP and up to 31 December 2008.

11. RELATED PARTY DISCLOSURE

The Company has taken advantage of the exemption under Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions between entities, 90% or more of whose voting rights were controlled within the Enstar Group (formerly known as Castlewood Holdings Limited group), whose consolidated financial statements are publicly available (see note 12). There are no other related party transactions or balances requiring disclosure.

12. ULTIMATE PARENT COMPANY

The Company's ultimate parent company and controlling entity is Enstar Group Limited (formerly Castlewood Holdings Limited), incorporated in Bermuda. The immediate parent company is Virginia Holdings Ltd, also incorporated in Bermuda.

At 31 December 2008 Enstar Group Limited (formerly Castlewood Holdings Limited) was the parent company for the smallest and largest group in which the company is consolidated.

On 30 January 2007, CWMS Subsidiary Corp., a wholly owned subsidiary of Castlewood Holdings Limited, merged with and into The Enstar Group Inc. Castlewood Holdings Limited subsequently changed its name to Enstar Group Limited and as a result of the merger, Enstar Group Inc is now a directly owned subsidiary of Enstar Group Limited which remains the ultimate parent company.

The annual U.S. Securities and Exchange Commission filing of Enstar Group Limited may be obtained from:

U.S. Securities and Exchange Commission
 450 Fifth Street, NW
 Washington, D.C. 20549
 U.S.A.