

CAVELL HOLDINGS LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2010

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REPORT AND FINANCIAL STATEMENTS 2010

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

Derek Reid
Alan Turner
Gareth Nokes

SECRETARY

Siobhan Hextall

REGISTERED OFFICE

Avaya House
2 Cathedral Hill
Guildford
Surrey GU2 7YL

BANKERS

Barclays Bank Plc

AUDITORS

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

DIRECTORS' REPORT

The directors present their annual report and audited financial statements of Cavell Holdings Limited ("the Company") for the year ended 31 December 2010

PRINCIPAL ACTIVITIES

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 A/S

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The results of the Company for the year ended 31 December 2010 are set out in the financial statements on page 7. The Company made a post-tax loss for the year of £11.472 (2009 – loss of £10.730). The value of the investment in Cavell Insurance Company Limited was increased by £5,923,983 (2009 decreased by £1,132,000) during the year due to the change in the net asset position of the subsidiary undertaking.

The Company is ultimately owned by Enstar Group Limited, a company incorporated and registered in Bermuda. The Company is currently managed by Enstar (EU) Limited ("Enstar"), a wholly-owned subsidiary of Enstar Group Limited.

The Company has claimed exemption under s417(1) of the Companies Act 2006 from including an Enhanced Business Review within the directors' report.

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 2010 the Company's immediate parent company, Virginia Holdings Limited, was seeking to simplify the structure of the group of companies it owns. As a result, it was anticipated that the Company would 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 2009 financial statements were 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. Those changes in the group structure did not ultimately take place during 2010 and the Company has retained its interest in Cavell Insurance Company Limited. It is anticipated however that those changes will occur during 2011 and as a result, the financial statements for the year have again been prepared on a basis other than that of a going concern.

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, and
- 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.

GOING CONCERN

As a result of the expectation that the Company will be wound up during 2011, further details of which are included above in Future Developments, the financial statements have been prepared on a basis other than that of a going concern.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year (2009: £nil).

DIRECTORS' REPORT

DIRECTORS

The present membership of the Board of Directors is shown on page 1, all of who held office from 1 January 2010, and until the date of this report, unless otherwise stated

DISCLOSURE TO THE AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be reappointed as auditors in the absence of an Annual General Meeting.

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



Gareth Nokes
Director
31 March 2011

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). 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 accounting 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 and the group 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 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.

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 2010 which comprise of the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit 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.

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

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on other matter prescribed by the Companies Act 2006

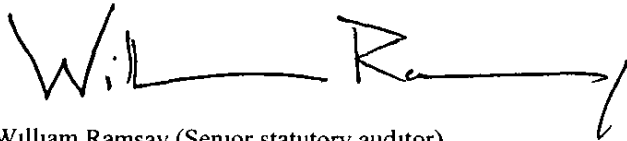
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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
- the Directors were not entitled to take advantage of the small companies exemption in preparing the directors' report



William Ramsay (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
~~31 March 2011~~

1 April 2011

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Investment income		899	-
Administrative expenses	2	(11)	(11)
Interest expense		(899)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(11)	(11)
Tax on loss on ordinary activities	4	-	-
RETAINED LOSS FOR THE FINANCIAL YEAR		(11)	(11)

It is intended that the Company will cease operations during 2011. Accordingly, these financial statements have been prepared on an other than going concern basis. There is no impact on the reported profit or net assets as a result of the change in basis of preparation of the financial statements.

The Company has no recognised gains or losses other than the loss of £11,472 (2009: £10,730) shown above. Accordingly, a statement of total recognised gains and losses is not required.

The notes on pages 9 to 11 form an integral part of these accounts.

BALANCE SHEET
as at 31 December 2010

	Note	2010 £'000	2009 £'000
FIXED ASSETS			
Investments in subsidiary undertakings	5	54,159	48,235
		<u>54,159</u>	<u>48,235</u>
CURRENT ASSETS			
Cash at bank and in hand		254	258
Other debtors		2	2
Amounts due from group undertakings		30,568	-
		<u>30,824</u>	<u>260</u>
CREDITORS: amounts falling due within one year			
Amounts owed to group undertakings		(30,571)	(3)
Accruals and deferred income		(8)	(1)
		<u>(30,579)</u>	<u>(4)</u>
NET CURRENT ASSETS		<u>245</u>	<u>256</u>
NET ASSETS		<u>54,404</u>	<u>48,491</u>
CAPITAL AND RESERVES			
Called up share capital	6	34,453	34,453
Share premium account	7	700	700
Profit and loss account	7	(380)	(369)
Revaluation reserve	7	19,631	13,707
EQUITY SHAREHOLDERS' FUNDS		<u>54,404</u>	<u>48,491</u>

The notes on pages 9 to 11 form an integral part of these accounts

These financial statements were approved and authorised for issue by the Board of Directors on 31 March 2011

Signed on behalf of the Board of Directors



Gareth Nokes

Director

Company Registration No 01095628

NOTES TO THE ACCOUNTS

Year ended 31 December 2010

1. ACCOUNTING POLICIES

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.

The Company is exempt by virtue of Section 401 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group. The consolidated financial statements of Enstar Group Limited, within which the Company is included, are publicly available (see note 9).

In accordance with FRS 1 (Revised 1996), Cash Flow Statements, the Company is not required to prepare a cash flow statement because more than 90% of the voting rights of the Company are held within the group and the group's consolidated financial statements are publicly available.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with United Kingdom accounting standards.

Foreign Currency

Transactions in foreign currencies during the year are translated into sterling at average rates of exchange for the period. Monetary assets and liabilities are translated into sterling at the rates ruling at the balance sheet date.

Taxation

The charge for taxation is based on the profit/(loss) for the year, taking into account deferred taxation. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or a right to receive more tax, with the following exception. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable tax profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is calculated based on tax rates and laws substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Investments

Investments in subsidiary undertakings and associated undertakings are stated at Net Asset Value. Any surplus or deficit are taken to the revaluation reserve.

2. ADMINISTRATIVE EXPENSES

	2010 £'000	2009 £'000
Administrative expenses and other charges include		
Auditors' remuneration		
- audit services	(6)	(10)
- non-audit services	(4)	(1)
	<u>(10)</u>	<u>(11)</u>

The Company has no employees (2009 – none)

NOTES TO THE ACCOUNTS

Year ended 31 December 2010

3. DIRECTORS' EMOLUMENTS

The directors are not remunerated for their services by the Company. They are employees of Enstar (EU) Limited. They are remunerated by Enstar (EU) Limited for their services to the group and they receive no remuneration as directors of this company. Disclosures regarding Directors' emoluments and staff costs are contained in the financial statements of Enstar (EU) Limited.

4. TAX ON LOSS ON ORDINARY ACTIVITIES

	2010 £'000	2009 £'000
Analysis of charge in the year		
UK corporation tax on loss for the year	-	-
	<u> </u>	<u> </u>
Factors affecting tax charge for the year		
Loss on ordinary activities before tax	(11)	(11)
	<u> </u>	<u> </u>
Loss on ordinary activities multiplied by standard rate of tax in the UK of 28% (2009 – 28%)	3	3
Utilisation of tax losses brought forward	-	-
Group relief surrendered for nil consideration	(3)	(3)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

Factors that may affect future tax charges

The Company has tax losses arising in the UK of £81,340 (2009 - £70,006) 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 due to the uncertainty of future taxable profits. There is no unrecognised deferred tax liability.

5. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

At 31 December 2010 the Company owned 100% of the ordinary share capital of Cavell Insurance Company Limited, an insurance company registered in England. Cavell Insurance Company Limited previously owned 100% of the ordinary share capital of Cirrus Reinsurance Company Limited A/S, a former reinsurance company incorporated in Norway which was liquidated during 2009.

	2010 £'000	2009 £'000
Carrying value of shares in subsidiary undertakings brought forward	48,235	49,367
Revaluation in the year	5,924	(1,132)
	<u> </u>	<u> </u>
Carrying value of shares in subsidiary undertakings carried forward	<u>54,159</u>	<u>48,235</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2010

6. CALLED UP SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised:		
55,000,000 ordinary shares of £1 each	55,000	55,000
Allotted, issued and fully paid:		
34,452,517 ordinary shares of £1 each	34,453	34,453

7 SHAREHOLDERS' FUNDS

	Share capital £'000	Share premium £'000	Profit & loss a/c £'000	Revaluation reserve £'000	Total £'000
2010					
Balance at 1 January	34,453	700	(369)	13,707	48,491
(Loss) on ordinary activities after taxation	-	-	(11)	-	(11)
Revaluation of subsidiary undertaking	-	-	-	5,924	5,924
Balance at 31 December	34,453	700	(380)	19,631	54,404
2009					
Balance at 1 January	34,453	700	(358)	14,839	49,634
(Loss) on ordinary activities after taxation	-	-	(11)	-	(11)
Revaluation of subsidiary undertaking	-	-	-	(1,132)	(1,132)
Balance at 31 December	34,453	700	(369)	13,707	48,491

8. RELATED PARTY DISCLOSURE

Advantage has been taken of the exemption under Financial Reporting Standard 8 "Related Party Disclosures" not to disclose transactions between entities, 100% of whose voting rights were controlled within the Enstar Group, whose consolidated financial statements are publicly available (see note 9) There are no other transactions requiring disclosure.

9. ULTIMATE PARENT COMPANY

The Company's ultimate parent company and controlling entity is Enstar Group Limited, incorporated in Bermuda. The immediate parent company is Virginia Holdings Limited, incorporated in Bermuda.

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