

LONHAM GROUP LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018



Registered number: 01679607

Registered office: Plantation Place, 30 Fenchurch Street, London EC3M 3AD

LONHAM GROUP LIMITED

STRATEGIC REPORT

The Directors present their strategic report of Lonham Group Limited (the Company) for the year ended 31 December 2018.

Principal activity

The Company's principal activity is to act as an agent in underwriting insurance risks.

On 28 December 2018 China Reinsurance (Group) Corporation (China Re) became the ultimate parent of the Company following completion of its acquisition of 100% of The Hanover Insurance International Holdings Limited (subsequently renamed China Re International Holdings Limited) by China Re International Company Ltd, its wholly owned subsidiary.

Employees

All company employees transferred to Chaucer Underwriting Services Limited with effect from 1 January 2019, under a TUPE arrangement.

Results and dividends

The profit for the financial year was £179,370 (2017: £191,282). The Company paid a final dividend in 2018 of £1,000,000 for the year ended 31 December 2017 (2017: £nil).

Principal risks and uncertainties

Credit risk

The Company's principal risk relates to credit exposures on its debtors.

Approved by the Board of Directors on 4 July 2019 and signed on its behalf by

A handwritten signature in black ink, appearing to be 'D C Bendle', with a long horizontal flourish extending to the right.

D C Bendle
Director

LONHAM GROUP LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Lonham Group Limited for the year ended 31 December 2018.

Directors and their interests

The Directors, as set out below, held office throughout the year and up to the date of signing the financial statements.

M J Ayres

R J Callan

J Fowle

D C Bendle

Resigned 16th August 2018

Appointed 16th August 2018

No Director had any interest in the voting share capital of the Company at any time during the year.

During the period from 1 January 2018 to 28 December 2018, the Company provided its Directors and Officers with a qualifying third party indemnity and cover under a Directors and Officers insurance policy taken out by The Hanover Insurance Group, Inc. (THG). From 28 December 2018 (and including) the date of approval of this report, the Company provided its Directors and Officers with a qualifying third party indemnity and cover under an annual Directors and Officers insurance policy taken out by Chaucer, there has been no gap in coverage.

Company Secretary

R N Barnett

Registered office

Plantation Place
30 Fenchurch Street
London EC3M 3AD

Registered number

01679607

Independent Auditors

PricewaterhouseCoopers LLP, London

Ultimate parent company

China Reinsurance (Group) Corporation

Going concern basis

No material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern have been identified by the Directors.

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DIRECTORS' REPORT (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' 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 prepared 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;
- 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 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.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the China Reinsurance (Group) Corporation Audit Committee Meeting.

Approved by the Board of Directors on 4 July 2019 and signed on its behalf by



D C Bendle
Director

LONHAM LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LONHAM LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Lonham Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2018; the statement of comprehensive income and the statement of changes in shareholder's equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

LONHAM LIMITED

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Other required reporting

Companies Act 2006 exception reporting

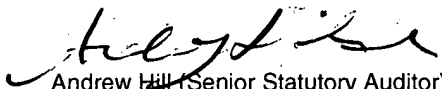
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Other matter

The financial statements for the year ended 31 December 2017, forming the corresponding figures of the financial statements for the year ended 31 December 2018, are unaudited.



Andrew Hill (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 July 2019

LONHAM GROUP LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £	2017 £
Turnover	3	1,319,162	1,269,053
Administrative expenses		<u>(1,142,420)</u>	<u>(1,079,593)</u>
Operating profit	4	176,742	189,460
Interest receivable and similar income		<u>2,628</u>	<u>1,822</u>
Profit before taxation		179,370	191,282
Tax on profit on ordinary activities	7	-	-
Total comprehensive income for the year		179,370	191,282

All amounts relate to continuing operations.

LONHAM GROUP LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

Registered Number: 01679607

	Notes	2018 £	2017 £
Fixed assets			
Tangible assets	8	59,308	49,943
Current assets			
Debtors	9	101,261	180,414
Cash at bank		1,249,946	2,112,124
		<u>1,351,207</u>	<u>2,292,538</u>
Creditors: amounts falling due within one year	10	<u>(632,999)</u>	<u>(744,335)</u>
Net current assets		<u>718,208</u>	<u>1,548,203</u>
Net assets		<u>777,516</u>	<u>1,598,146</u>
Capital and reserves			
Called up share capital	12	100	100
Capital redemption reserve		10,000	10,000
Retained earnings		767,416	1,588,046
Total equity		<u>777,516</u>	<u>1,598,146</u>

The financial statements on pages 6 to 13 were approved by the Board of Directors on 4 July 2019 and were signed on its behalf by:



R J Callan
Director

LONHAM GROUP LIMITED

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Called up share capital £	Capital redemption reserve £	Retained earnings £	Total equity £
Balance as at 1 January 2017		100	10,000	1,396,764	1,406,864
Total comprehensive income for the year		-	-	191,282	191,282
Balance as at 31 December 2017		100	10,000	1,588,046	1,598,146
Balance as at 1 January 2018		100	10,000	1,588,046	1,598,146
Total comprehensive income for the year		-	-	179,370	179,370
Dividends paid	11	-	-	(1,000,000)	(1,000,000)
Balance as at 31 December 2018		100	10,000	767,416	777,516

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Basis of preparation

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable UK law and accounting standards (UK GAAP). The Company is wholly-owned by a member of China Re (Group) Corporation a company incorporated and registered in China (Note 12), and is included in the consolidated financial statements of China Reinsurance (Group) Corporation, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 102.

The Company is exempt under the terms of FRS 102 from disclosing related-party transactions with the ultimate parent company.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Turnover

The turnover in the Statement of Comprehensive Income represents:

- i) Insurance commission earned in the year. This is calculated based on the policies which have been invoiced in the year.

Where the company receives revenue which is related to the underlying underwriting profits on policies written or sold, this is only recognised in the period in which the right to the consideration is achieved and the final amount can be easily measured.

- ii) Income, receivable from Chaucer Syndicates Limited, calculated as 110% of expenses incurred for period 1st January 2018 to 31st December 2018 (2017: 110%), in line with the agreement between Lonham Group Limited and Chaucer Syndicates Limited.

b) Dividends

Dividends paid or declared during the year are recognised as a reduction in equity. Dividends declared after the balance sheet date but before the financial statements are authorised are not recognised but are disclosed in the notes to the financial statements.

c) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment. Depreciation is calculated to write-off the cost of tangible fixed assets over their estimated useful lives on a straight line basis as follows:

Freehold property	2.38% straight line
Fixtures and fittings	33.33% per annum

d) Cash at bank

Cash at bank on the Statement of Financial Position represent cash balances and money market fund deposits lodged with banks.

e) Foreign currencies

The Company's functional and presentational currency is Pound Sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

f) Taxation

The tax expense represents the tax currently payable.

The tax currently payable is based on taxable income for the year. Taxable profit differs from profit on ordinary activities as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates applicable at the Statement of Financial Position date.

g) Insurance debtors and creditors

Insurance brokers act as agents in placing the insurable risks of their clients with the insurers and, as such, are not liable as principals for amounts arising from such transactions. In recognition of this relationship, debtors from insurance broking transactions are not included as an asset of the Company. Other than receivable for fees and commissions earned on a transaction, no recognition of the insurance transaction occurs until the Company received cash in respect of premium or claims, at which time a corresponding liability in trade creditors is established in favour of the insurer or the client. In certain circumstances, the Company advances premiums, refunds or claims to insurance underwriters or clients prior collection. These advances are reflected in the Statement of Financial Position as part of debtors.

h) Debtors

Debtors are amounts due from customers for insurance broking services provided in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtors.

i) Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less (or in normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

j) Employment benefits: pensions

The Company operates a defined contribution pension scheme. Payments to the defined contribution section are charged as expenses as they fall due.

Pension contributions to the pension scheme ceased on 31 December 2018 due to the transfer of employees from Lonham Group Limited to Chaucer Underwriting Services Limited

3. Turnover

11.6% of the Company's gross premium turnover (2017: 12.1%) is attributable to geographic markets outside the United Kingdom.

	2018	2017
	£	£
Insurance commission	69,871	36,489
Expenses recharged	1,249,291	1,232,564
	<u>1,319,162</u>	<u>1,269,053</u>

4. Operating profit

Operating profit is stated after charging:

	2018	2017
Depreciation of tangible fixed assets (Note 8)	5,988	9,464
Pension costs	91,274	89,316

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. Auditors' remuneration

The auditors' remuneration in respect of the Company's financial statements for the year ended 31 December 2018 was £15,950 (2017: £15,000), which has been borne by a related group undertaking.

6. Directors' emoluments and staff costs

Directors' emoluments

	2018	2017
	£	£
Aggregate remuneration	121,902	121,107
Pension contributions	16,380	16,223

For the year to 31 December 2018 retirement benefits were accruing to one Director in respect of a defined contribution pension scheme. No Directors participated in the Chaucer share incentive plan.

	2018	2017
	£	£
Number of Directors who were members of defined contribution pension scheme	1	1

Staff Costs

Employee information:

	2018	2017
	£	£
Wages and Salaries	728,089	714,709
Social Security Costs	81,376	79,941
Other pension costs	91,274	89,316
The average monthly number of persons employed by the Company during the year	16	16

7. Tax on profit

	2018	2017
	£	£
Current tax		
UK corporation tax at 19.00% (2017: 19.25%)	-	-
Tax on profit	-	-

Other factors affecting the tax charge for the year

The tax charge for the year differs from (2017: differs from) that resulting from applying the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018	2017
	£	£
Profit before taxation	179,370	191,282
Tax at 19.00% (2017: 19.25%) thereon	34,080	36,822
Effects of:		
Expenses not deductible for tax purposes (less than) / in excess of capital allowances	(1,342)	2,439
Group relief for nil consideration	(32,738)	(39,261)
Tax charge for the year	-	-

The financial statements reflect the UK corporation tax rates included in Finance Acts 2015 and Finance Act 2016. This legislation was substantively enacted and enacted by the balance sheet date. Under Finance Act 2015 the tax rate was 20% effective from 1 April 2016. Finance (No. 2) Act 2015 reduced the tax rate to 19% effective from 1 April 2017. Finance Act 2016 reduced the tax rate to 17% effective from 1 April 2020 and will impact the current tax charge of the company in future periods.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

8. Tangible assets

	Freehold Property £	Fixtures and fittings £	Total £
Cost:			
At 1 January 2018	300,610	165,490	466,100
Additions	-	15,353	15,353
Disposals	-	(1,780)	(1,780)
At 31 December 2018	<u>300,610</u>	<u>179,063</u>	<u>479,673</u>
Accumulated depreciation:			
At 1 January 2018	253,467	162,690	416,157
Charge	2,143	3,845	5,988
Disposals	-	(1,780)	(1,780)
At 31 December 2018	<u>255,610</u>	<u>164,755</u>	<u>420,365</u>
Net book value:			
At 31 December 2018	<u>45,000</u>	<u>14,308</u>	<u>59,308</u>
At 31 December 2017	<u>47,143</u>	<u>2,800</u>	<u>49,943</u>

9. Debtors

	2018 £	2017 £
Debtors	101,261	180,414
	<u>101,261</u>	<u>180,414</u>

10. Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	351,392	473,854
Amounts owed to group undertakings	72,153	72,153
Corporation tax	-	-
Other taxation and social security	23,902	21,818
Pensions	10,468	13,200
Other creditors	100,000	100,000
Accruals and deferred income	75,084	63,310
	<u>632,999</u>	<u>744,335</u>

Trade creditors comprise £343,059 (2017: £440,895) owed to Syndicate 1084 and Chaucer Insurance Company DAC for premiums received less claims payments agreed, less expenses recharged.

11. Dividends paid

	2018 £	2017 £
Final dividend for the year ended:		
31 December 2017 paid on 28 June 2018	<u>1,000,000</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

12. Called up share capital

	2018 £	2017 £
Allotted, called up and fully paid:		
100 "A" ordinary voting shares of £1 each	<u>100</u>	<u>100</u>

13. Ultimate parent company

The largest and smallest group of undertakings for which group financial statements are prepared is China Reinsurance (Group) Corporation, a company incorporated and registered in China. China Re became the ultimate parent of the Company on 28 December 2018 following completion of its acquisition of 100% of The Hanover Insurance International Holdings Limited (subsequently renamed China Re International Holdings Limited) by China Re International Company Ltd, its wholly owned subsidiary. Results prior to this date are included in the financial statements of the former owner, The Hanover Insurance Group Inc., and subsequent to this date are included in the financial statements of China Re (Group) Corporation. The Company considers China Reinsurance (Group) Corporation to be its ultimate parent company. A copy of the most recent consolidated financial statements is available from the website of China Reinsurance (Group) Corporation (www.chinare.com/cn).