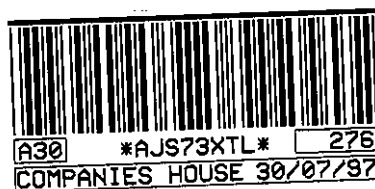


COTESWORTH & CO. LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For The Year Ended 31st December 1996

Company Number 572840



DIRECTORS' REPORT

The directors have pleasure in submitting their report and audited financial statements of the company for the year ended 31st December 1996.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company continued to be that of a Lloyd's underwriting agent managing syndicates at Lloyd's.

The company managed the affairs of five active and two run-off syndicates for the eight months to 31st August 1996. Following the setting up of Equitas Limited by Lloyd's, as part of "Reconstruction and Renewal", the company entered into agreement with Equitas Limited to administer the run-off of the 1992 & prior years of account of the seven syndicates previously under the management of Cotesworth & Co Limited. In addition an agreement was signed between Equitas Limited, Additional Underwriting Agencies (No 7) Limited and Cotesworth & Co Limited for the company to act as run-off administrator for syndicates 540/542 and 847 previously managed by Additional Underwriting Agencies (No 7) Limited. The combined capacity of the active syndicates was £182.15m (1995 - £224.57m)

The total capacity for the active managed syndicates in 1997 amounts to £158.99m.

FUTURE DEVELOPMENTS

The company proposes to continue its current activities.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,686,821 (1995 £531,248). The directors propose the payment of a final dividend of £4.075 per share (1995: £2.826) on the 'B' non-voting £1 shares amounting to £1,630,000 (1995 £706,568). This leaves a retained profit of £56,821 (1995 : Loss £175,320).

TANGIBLE FIXED ASSETS

A summary of the changes in the tangible fixed assets is given in note 13 on page 13.

DIRECTORS AND THEIR INTERESTS

The following served as directors of Cotesworth & Co Ltd from 1st January 1996 to the date of this report unless shown otherwise. None of the directors or their families had any interest in the shares of the company. The interests of the directors and their families in the parent undertaking, Cotesworth Holdings Limited were as follows:

Cotesworth Holdings Limited

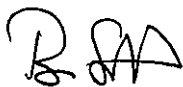
| | <u>31st December 1996</u> | | <u>1st January 1996</u> | |
|---------------------------------|---------------------------|---------|-------------------------|---------|
| | Ordinary £1 shares | Options | Ordinary £1 shares | Options |
| P.J. Aitchison | 91,001 | - | 91,001 | - |
| G.H. Bailey | - | 10,000 | - | 10,000 |
| J.A. Beck (resigned 31.12.96) | - | 3,310 | - | 3,310 |
| T.R. Berry | 40,501 | - | 40,501 | - |
| N.W. Britten | - | 3,310 | - | 3,310 |
| G. Davies | 20,100 | - | 20,100 | - |
| B.G. Devereese | - | - | - | - |
| C.L. Dunkley (appointed 1.1.97) | n/a | n/a | n/a | n/a |
| E.J. Fenton | - | - | - | - |
| J.S. Hale (appointed 1.1.97) | n/a | n/a | n/a | n/a |
| W. Scott | - | - | - | - |
| B.R. Smith | 10,100 | - | 10,100 | - |
| M.E. Warrington | 5,000 | 10,000 | 5,000 | 10,000 |

DIRECTORS' REPORT (continued)

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be re-appointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the board of directors on 23rd April 1997

A handwritten signature in dark ink, appearing to be 'W. Scott', written over a horizontal line.

W. Scott

Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which 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 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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.

AUDITORS' REPORT

REPORT OF THE AUDITORS

to the Shareholders of Cotesworth & Co Limited

We have audited the financial statements on pages 5 to 17, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31st December 1996 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Binder Hamlyn
Chartered Accountants
Registered Auditors
20 Old Bailey
London
EC4M 7BH

23rd April 1997

COTESWORTH & CO. LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31st December 1996

| | Notes | 1996 £ | 1995 £ |
|--|-------|--------------------|-------------------|
| TURNOVER | 2 | | |
| Continuing activities | | 7,959,519 | 1,703,179 |
| Discontinued activities | | 1,099,367 | - |
| | | <u>9,058,886</u> | <u>1,703,179</u> |
| ADMINISTRATION EXPENSES | | (2,588,044) | (1,106,721) |
| EXCEPTIONAL OPERATING EXPENSE | 3 | | |
| Continuing activities | | (3,952,796) | - |
| Discontinued activities | | (220,669) | - |
| | | <u>(4,173,465)</u> | <u>-</u> |
| OTHER OPERATING INCOME | 4 | 130,624 | 97,445 |
| OPERATING PROFIT | | | |
| Continuing activities | | 1,549,303 | 693,903 |
| Discontinued activities | | 878,698 | - |
| | | <u>2,428,001</u> | <u>693,903</u> |
| Investment income | 5 | 107,607 | 99,863 |
| Interest payable | 6 | (9,514) | (4,899) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 7 | 2,526,094 | 788,867 |
| Tax on profit on ordinary activities | 11 | <u>(839,273)</u> | <u>(257,619)</u> |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 1,686,821 | 531,248 |
| Dividends | 12 | <u>(1,630,000)</u> | <u>(706,568)</u> |
| RETAINED PROFIT (LOSS) FOR THE FINANCIAL YEAR | | <u>£56,821</u> | <u>(£175,320)</u> |

There are no recognised gains and losses other than as shown above.

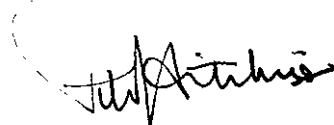
COTESWORTH & CO. LIMITED

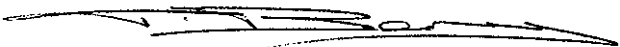
BALANCE SHEET
31st December 1996

| | Notes | 1996 £ | 1995 £ |
|--|-------|-------------------|-------------------|
| FIXED ASSETS | | | |
| Tangible fixed assets | 13 | 412,011 | 630,757 |
| Investments | 14 | - | 2,600 |
| | | <u>412,011</u> | <u>633,357</u> |
| CURRENT ASSETS | | | |
| Debtors | 15 | 2,098,114 | 1,510,551 |
| Cash at bank | 16 | <u>2,720,869</u> | <u>1,066,500</u> |
| | | 4,818,983 | 2,577,051 |
| CREDITORS | | | |
| Amounts falling due within one year | 17 | <u>3,742,153</u> | <u>1,787,656</u> |
| NET CURRENT ASSETS | | | |
| | | <u>1,076,830</u> | <u>789,395</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 1,488,841 | 1,422,752 |
| CREDITORS | | | |
| Amounts falling due after more than one year | 18 | <u>97,333</u> | <u>238,065</u> |
| | | <u>£1,391,508</u> | <u>£1,184,687</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 20 | 400,300 | 250,300 |
| Profit and loss account | 21 | <u>991,208</u> | <u>934,387</u> |
| SHAREHOLDERS FUNDS | | | |
| | | <u>£1,391,508</u> | <u>£1,184,687</u> |

The whole of the shareholders funds were attributable to equity interests (1995: same)

The financial statements on pages 5 to 17 were approved by the Board of Directors on 23rd April 1997 and signed on its behalf by


P.J. Aitchison
Director


T.R. Berry
Director

COTESWORTH & CO. LIMITED

STATEMENT OF CASH FLOWS
for the year ended 31 December 1996

| | Notes | 1996 £ | 1995 £ |
|---|-------|-------------------|--------------------|
| NET CASH INFLOW FROM | | | |
| OPERATING ACTIVITIES | 22 | 2,556,898 | 764,600 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 113,437 | 99,801 |
| Interest paid | | (8,619) | (4,899) |
| Dividends received | | 62 | 62 |
| Dividends paid | | (706,568) | (628,734) |
| NET CASH (OUTFLOW) FROM RETURNS ON | | | |
| INVESTMENTS AND SERVICING OF FINANCE | | <u>(601,688)</u> | <u>(533,770)</u> |
| TAXATION | | | |
| Corporation tax paid | | <u>(183,265)</u> | <u>(508,369)</u> |
| INVESTING ACTIVITIES | | | |
| Payments to acquire tangible fixed assets | | (62,636) | (60,429) |
| Receipts from sale of tangible fixed assets | | 34,050 | 10,450 |
| Write down of investments | | - | 250 |
| Receipts from sale of investments | | <u>4,625</u> | <u>-</u> |
| NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES | | <u>(23,961)</u> | <u>(49,729)</u> |
| NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING | | <u>£1,747,984</u> | <u>£ (327,268)</u> |
| FINANCING | | | |
| Issue of ordinary share capital | 21 | (150,000) | - |
| Repayment of capital element of finance lease payments | 19 | <u>243,615</u> | <u>307,714</u> |
| NET CASH OUTFLOW FROM FINANCING | | <u>93,615</u> | <u>307,714</u> |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 16 | <u>1,654,369</u> | <u>(634,982)</u> |
| | | <u>£1,747,984</u> | <u>£(327,268)</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Preparation of financial statements

Advantage has been taken of s229 of the Companies Act 1985 which permits the exclusion from consolidation of subsidiary undertakings that are not material when taken together. Accordingly these financial statements relate to Cotesworth & Co. Limited as an individual company.

Turnover

Turnover comprises underwriting agency fees and underwriting profit commission for which the following bases are adopted :-

Underwriting agency fees

These represent fees from capital providers at Lloyd's in respect of the underwriting year in which they are earned.

Underwriting profit commission

This is credited when received and usually relates to the underwriting account closed at the previous 31st December.

Goodwill

Goodwill arising on acquisition is written off against reserves in the year in which it arises.

Investments

Fixed asset investments are stated at market value, if listed, or at cost less provision for any permanent diminution in value if unlisted.

Tangible fixed assets

Tangible fixed assets are recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

| | |
|--------------------|---------|
| Motor vehicles | 4 years |
| Computer equipment | 4 years |
| Office equipment | 5 years |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996(continued)

1. ACCOUNTING POLICIES (continued)**Deferred taxation**

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Leasing contracts

Lloyd's syndicates are unable to lease assets and therefore the company has entered into various lease contracts on behalf of its managed syndicates.

Such assets held under finance leases and similar contracts, and the related lease obligations, are recorded in the balance sheet at the inception of the leases and are depreciated over the assets' useful lives.

The amounts by which lease payments exceed the recorded lease obligation are treated as finance charges. These are charged to the profit and loss account over the period of the lease and represents a constant charge on the remaining balance of the liability for each period. The accounting treatment is in accordance with SSAP 21.

In order to ensure that neither the company nor its managed syndicates benefit from the cash flow of these arrangements, any rental instalment is recovered from the syndicate immediately it is paid by the company. The charge to depreciation is not reflected in the profit and loss account as it is deemed recovered from the managed syndicates.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The pension costs charged to the profit and loss account in respect of the defined contribution scheme represent amounts payable by the company during the accounting period in accordance with the rules of the scheme.

2. TURNOVER

| | 1996 £ | 1995 £ |
|---|-------------------|-------------------|
| Continuing activities : | | |
| Managing Agent | | |
| Agents fees | 910,495 | 1,119,112 |
| Profit commission - 1993(1992)Year of account | 5,608,024 | 584,067 |
| Profit commission - 1994 Year of account in advance | 1,218,000 | - |
| Profit commission - 1995 Year of account in advance | 223,000 | - |
| Discontinued activities: | | |
| Members Agent | | |
| Profit commission - 1993(1992)Year of account | 1,099,367 | - |
| | <u>£9,058,886</u> | <u>£1,703,179</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996 (continued)

3. EXCEPTIONAL OPERATING EXPENSE

The company was obliged to participate in a settlement of the complaints by Members of Lloyd's under proposals set out in the document entitled "Lloyd's: Reconstruction and Renewal". The company's contribution to this settlement was as follows:-

| | 1996 £ | 1995 £ |
|---|-------------------|-----------|
| Continuing activities:- | | |
| Contributions calculated by reference to the capacity of the managed syndicates for the 1993, 1994 and 1995 Years of account. | 3,952,796 | - |
| Discontinued activities:- | | |
| Contributions calculated by reference to the capacity of the members agency for the 1993 Year of account. | 220,669 | - |
| | <u>£4,173,465</u> | <u>£-</u> |

The contribution detailed above has been funded as follows:-

| | 1996 £ | 1995 £ |
|--|-------------------|-----------|
| Liability as a managing agency: | | |
| 1993 Year of account profit commission | 2,511,796 | - |
| 1994 Year of account advance profit commission | 1,218,000 | - |
| 1995 Year of account advance profit commission | 223,000 | - |
| Liability as a members agency: | | |
| 1993 Year of account profit commission | 220,669 | - |
| | <u>£4,173,465</u> | <u>£-</u> |

4. OTHER OPERATING INCOME

| | 1996 £ | 1995 £ |
|-----------------|-----------------|----------------|
| Management fee | 130,624 | 87,444 |
| Winding up fees | - | 10,001 |
| | <u>£130,624</u> | <u>£97,445</u> |

5. INVESTMENT INCOME

| | 1996 £ | 1995 £ |
|--|-----------------|----------------|
| Other interest | 120 | - |
| Bank interest receivable | 105,400 | 99,801 |
| Investment income - Listed investments | 2,087 | 62 |
| | <u>£107,607</u> | <u>£99,863</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996 (continued)

6. INTEREST PAYABLE

| | 1996 £ | 1995 £ |
|--|-----------------|-----------------|
| Finance lease | 39,901 | 68,372 |
| Hire purchase contracts | 4,836 | 4,809 |
| Other interest | 3,387 | 108 |
| | <u>48,124</u> | <u>73,289</u> |
| Less recovered from managed syndicates | <u>(38,610)</u> | <u>(68,390)</u> |
| Costs borne by the company | <u>£9,514</u> | <u>£4,899</u> |

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 1996 £ | 1995 £ |
|---|----------------|----------------|
| This is stated after charging: | | |
| Auditors' remuneration in respect of: | | |
| audit services | 10,000 | 9,000 |
| non audit services | 8,525 | 13,797 |
| Depreciation of owned tangible fixed assets | 37,042 | 86,708 |
| Depreciation of tangible fixed assets held under finance leases and hire purchase contracts | <u>260,768</u> | <u>208,609</u> |

8. STAFF COSTS

The average number of persons, including directors, employed by the company during the year was 88 (1995:89)

The employment costs to the company of those persons were as follows:

| | 1996 £ | 1995 £ |
|-----------------------------------|--------------------|--------------------|
| Salaries | 5,436,254 | 4,088,839 |
| Social security costs | 511,625 | 424,682 |
| Other pension costs | <u>672,960</u> | <u>540,375</u> |
| | 6,620,839 | 5,053,896 |
| Recovered from managed syndicates | <u>(4,372,702)</u> | <u>(4,296,000)</u> |
| Costs borne by the company | <u>£2,248,137</u> | <u>£757,896</u> |

9. DIRECTORS' EMOLUMENTS

| | 1996 £ | 1995 £ |
|-----------------------------------|--------------------|--------------------|
| Directors' Fees | 100,000 | 100,000 |
| Other emoluments | 2,331,506 | 1,317,799 |
| Pension contributions | <u>169,313</u> | <u>169,625</u> |
| | 2,600,819 | 1,587,424 |
| Recovered from managed syndicates | <u>(1,119,488)</u> | <u>(1,141,013)</u> |
| Costs borne by the company | <u>£1,481,331</u> | <u>£446,411</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996 (continued)

10. DIRECTORS' EMOLUMENTS(continued)

The directors' emoluments shown above, excluding pension contributions, fell within the following ranges:

| | 1996 £ | 1995 £ |
|-----------------------|-----------------|-----------------|
| Chairman | <u>£87,968</u> | <u>£94,992</u> |
| Highest paid director | <u>£917,612</u> | <u>£329,609</u> |
| Other directors | 1996 Number | 1995 Number |
| £ 5,001 to £ 10,000 | 2 | 2 |
| £ 90,001 to £ 95,000 | 1 | 1 |
| £ 95,001 to £100,000 | 1 | 1 |
| £115,001 to £120,000 | 2 | 1 |
| £120,001 to £125,000 | - | 1 |
| £160,001 to £165,000 | - | 1 |
| £165,001 to £170,000 | 1 | - |
| £175,001 to £180,000 | - | 1 |
| £205,001 to £210,000 | - | 1 |
| £380,001 to £385,000 | 1 | - |
| £410,001 to £415,000 | 1 | - |

During the year season ticket loans totalling £8,850 were made to three directors. The combined balances outstanding at 1st January 1996 amounted to £10,582 with £7,616 remaining at 31st December 1996.

The maximum amount outstanding during the year was £10,582.

11. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 1996 £ | 1995 £ |
|--|-----------------|-----------------|
| Based on the adjusted profit for the year: | | |
| U.K. Corporation tax at 33% | 850,000 | 265,000 |
| Adjustment in respect of prior year | <u>(10,727)</u> | <u>(7,381)</u> |
| | <u>£839,273</u> | <u>£257,619</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996 (continued)

12. DIVIDENDS

| | 1996 £ | 1995 £ |
|---|------------------|----------------|
| Proposed dividend of £4.075 per share on the 'B' non-voting £1 shares (1995 £2.826) | <u>1,630,000</u> | <u>706,568</u> |

13. TANGIBLE FIXED ASSETS

| | Motor Vehicles £ | Computer and Office Equipment £ | Total £ |
|---------------------------------|------------------------|--|-------------------|
| Cost | | | |
| 1st January 1996 | 347,717 | 1,814,730 | 2,162,447 |
| Acquisitions | 68,116 | 29,636 | 97,752 |
| Disposals | <u>(102,188)</u> | <u>-</u> | <u>(102,188)</u> |
| 31st December 1996 | <u>£313,645</u> | <u>£1,844,366</u> | <u>£2,158,011</u> |
| Accumulated depreciation | | | |
| 1st January 1996 | 204,816 | 1,326,874 | 1,531,690 |
| Charge for the year | 54,640 | 243,170 | 297,810 |
| Disposals | <u>(83,500)</u> | <u>-</u> | <u>(83,500)</u> |
| 31st December 1996 | <u>£175,956</u> | <u>£1,570,044</u> | <u>£1,746,000</u> |
| Net Book Value | | | |
| 31st December 1996 | <u>£137,689</u> | <u>£274,322</u> | <u>£412,011</u> |
| 1st January 1996 | <u>£142,901</u> | <u>£487,856</u> | <u>£630,757</u> |

The net book value at the year end of assets held under finance leases and similar contracts was £243,374 (1995 : £541,348). As detailed in the accounting policies the company recharges depreciation to its managed syndicates. For 1996 the amount recharged was £241,544. (1995: £242,439).

14. INVESTMENTS

| | 1996 £ | 1995 £ |
|--|-----------|---------------|
| Listed on a recognised stock exchange | | |
| Cost or market value at 1 January | 2,600 | 2,850 |
| Disposal | (2,600) | - |
| Provision for diminution in market value | <u>-</u> | <u>(250)</u> |
| Cost or market value at 31 December | <u>£-</u> | <u>£2,600</u> |

15. DEBTORS

| | 1996 £ | 1995 £ |
|-----------------------------------|-------------------|-------------------|
| Amount owed by parent undertaking | 1,126,331 | 388,922 |
| Other debtors | 727,141 | 944,156 |
| Prepayments and accrued income | <u>244,642</u> | <u>177,473</u> |
| | <u>£2,098,114</u> | <u>£1,510,551</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996 (continued)

16. CASH AT BANK

| | 1996 £ | 1995 £ |
|---------------------------|--------------------------|--------------------------|
| Cash at bank and in hand | | |
| At 1 January | 1,066,500 | 1,701,482 |
| Net cash inflow/(outflow) | <u>1,654,369</u> | <u>(634,982)</u> |
| At 31st December | <u><u>£2,720,869</u></u> | <u><u>£1,066,500</u></u> |

17. CREDITORS: Amounts falling due within one year

| | 1996 £ | 1995 £ |
|--|--------------------------|--------------------------|
| Trade creditors | 120,004 | 114,823 |
| UK Corporation tax | 797,004 | 264,058 |
| Other taxes and social security costs | 165,338 | 179,471 |
| Proposed dividend | 1,630,000 | 706,568 |
| Accruals and deferred income | 816,317 | 268,993 |
| Other creditors | 42,544 | 15,030 |
| Obligations under finance leases and hire purchase contracts | <u>170,946</u> | <u>238,713</u> |
| | <u><u>£3,742,153</u></u> | <u><u>£1,787,656</u></u> |

18. CREDITORS: Amounts falling due after more than one year

| | 1996 £ | 1995 £ |
|--|----------------|-----------------|
| Obligations under finance leases and hire purchase contracts | <u>£97,333</u> | <u>£238,065</u> |

**19. OBLIGATIONS UNDER FINANCE LEASES
AND HIRE PURCHASE CONTRACTS**

| | 1996 £ | 1995 £ |
|---|------------------------|------------------------|
| (a) Obligations, net of finance charges, may be analysed as follows: | | |
| Amounts payable within one year | 170,946 | 238,713 |
| Amounts payable within two to five years | <u>97,333</u> | <u>238,065</u> |
| | <u><u>£268,279</u></u> | <u><u>£476,778</u></u> |
| (b) Analysis of changes in obligations under finance leases and hire purchase contracts during the year | | |
| At 1st January | 476,778 | 649,337 |
| Inception of finance lease contracts | 35,116 | 135,155 |
| Capital element of finance lease rental payments | <u>(243,615)</u> | <u>(307,714)</u> |
| At 31st December | <u><u>£268,279</u></u> | <u><u>£476,778</u></u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996 (continued)

20 SHARE CAPITAL

| | 1996 £ | 1995 £ |
|----------------------------------|-----------------|-----------------|
| Authorised: | | |
| 'A' voting shares of £1 each | 500 | 500 |
| 'B' non-voting shares of £1 each | 499,500 | 299,500 |
| | <u>£500,000</u> | <u>£300,000</u> |
| Allotted, issued and fully paid: | | |
| 'A' voting shares of £1 each | 300 | 300 |
| 'B' non-voting shares of £1 each | 400,000 | 250,000 |
| | <u>£400,300</u> | <u>£250,300</u> |

On 20th November 1996, the company resolved to increase its authorised share capital to £500,000 by creating a further 200,000 'B' shares of £1 each. On the same day, to meet the new requirements of Lloyd's financial resources for underwriting agents, the company's issued share capital was also increased by 150,000 'B' shares.

Only 'B' non-voting shares have rights to dividends. On a division of assets in a winding-up, the amount available for distribution amongst the shareholders would be applied first in repayment of nominal value to the holders of the 'A' voting shares. The balance of the assets would be divided among the holders of the 'B' non-voting shares. All shares are non-redeemable.

21 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

| | Share Capital £ | Profit and Loss Account £ | Total £ |
|-------------------------------|-----------------------|------------------------------------|-------------------|
| At 1 January 1996 | 250,300 | 934,387 | 1,184,687 |
| Profit for the year | - | 1,686,821 | 1,686,821 |
| Dividends | - | (1,630,000) | (1,630,000) |
| Proceeds from issue of shares | 150,000 | - | 150,000 |
| | <u>£400,300</u> | <u>£991,208</u> | <u>£1,391,508</u> |
| At 31 December 1996 | <u>£400,300</u> | <u>£991,208</u> | <u>£1,391,508</u> |

22 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 1996 £ | 1995 £ |
|-------------------------------------|-------------------|-----------------|
| Operating profit | 2,428,001 | 693,903 |
| Depreciation charge | 297,810 | 295,317 |
| (Profit) on sale of tangible assets | (15,362) | (5,199) |
| (Increase) in debtors | (595,480) | (437,745) |
| Increase in creditors | 441,929 | 218,324 |
| | <u>£2,556,898</u> | <u>£764,600</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996 (continued)

23 PENSIONS

The company contributes to two defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the funds and amounted to £672,960 (1995 : £540,375). The amount outstanding at the year end in respect of contributions amounted to £437 (1995 : £nil).

24. OTHER FINANCIAL COMMITMENTS

At 31st December 1996 the company had annual commitments under non-cancellable operating leases, the majority of which will be recharged to managed syndicates as incurred, as follows:

| | Buildings | | Other | |
|--------------------------------|------------------|-----------------|-----------------|-----------------|
| | 1996 | 1995 | 1996 | 1995 |
| Operating leases which expire: | | | | |
| within one year | - | - | 14,756 | 15,873 |
| within two to five years | 428,177 | 428,177 | 116,224 | 349,456 |
| | <u>£428,177</u> | <u>£428,177</u> | <u>£130,980</u> | <u>£365,329</u> |

25. CONTINGENT LIABILITIES**Reconstruction & Renewal**

Contributions towards Lloyd's Reconstruction & Renewal were sought from various sources, including managing and members' agents. The contributions from such agents were calculated pro-rata to capacity, and were mandated by a byelaw preventing any non-paying agent from continuing to trade in the Lloyd's market.

Lloyd's underwriting agents were entitled to utilise profit commission released to them, in respect of the 1994 and 1995 years of account, in advance of the closure of those years, during calendar year 1996 to fund their contributions. This entitlement was permitted by changes made to the Agency Agreements Byelaw and by agents entering into Supplemental Agreements.

Accordingly, any agent taking advantage of these arrangements can recognise such profit commission released to them from the 1994 and 1995 years of account in their profit and loss accounts at the same time as the levy is charged as an expense.

It is recognised that any profit commission received in advance of determining the final closed year result of a Lloyd's syndicate is subject to a degree of uncertainty, and that should the result not be as anticipated this may result in a repayment by the managing agent to the Names. The syndicate results from the 1994 year of account have, since the year end, been finalised and do not give rise to any such liability. Based upon the most recent projections submitted to Lloyd's, we consider it highly unlikely that any repayment in respect of the 1995 year of account will be necessary, and consequently no provision has been made.

The amounts of profit commission released in advance were as follows:

| | | |
|----------------------|---|-------------------|
| 1994 Year of Account | - | <u>£1,218,000</u> |
| 1995 Year of Account | - | <u>£ 223,000</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 31st December 1996 (continued)

26. DIRECTORS' INTERESTS

The following directors are members of Lloyd's underwriting syndicates for which the company acts as managing agent and in that capacity have interests in contracts between the company and third parties:-

P.J. Aitchison
T.R. Berry
G.H Bailey
J.A. Beck
N.W. Britten
G Davies
B.G. Devereese
C.L. Dunkley
E.J. Fenton
B.R. Smith
M.E. Warrington

There is no other matter which, in the opinion of the directors, should be drawn to the attention of the shareholders.

27. PARENT UNDERTAKING

The parent undertaking is Cotesworth Holdings Limited, incorporated in Great Britain and registered in England and Wales. Copies of the group financial statements of Cotesworth Holdings Limited are available from Companies House, Crown Way, Maindy, Cardiff.