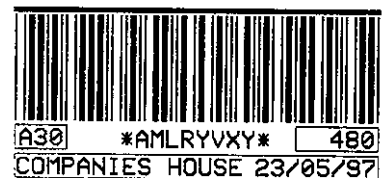


Falcon Agencies Limited

Directors' Report and Financial Statements

31st December 1996

Registered number 2970319



FALCON AGENCIES LIMITED

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FALCON AGENCIES LIMITED

Company Information

DIRECTORS

		APPOINTED	RESIGNED
A.M. Davies MA FCA	* Chairman	26/10/94	
N.W. Wentworth-Stanley	Managing	26/10/94	
K.J. Armour		26/10/94	31/01/97
D.A. Cant BSc ACA	Finance	26/10/94	
N.H.D. Carrick FCII		26/10/94	
T.R. Coleridge		26/10/94	
N.J. Hanbury		26/10/94	
C.J. Milln		26/10/94	
P.R. Nutting	*	20/03/95	
R.A. Page		26/10/94	
G.J. Podd		26/10/94	
S.M. Wilcox ACII		26/10/94	

* Non-executive

SECRETARY

N.D. Lewis FCA	26/10/94
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AUDITORS

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

BANKERS

Barclays Bank
54 Lombard Street
London EC3V 9EX

REGISTERED OFFICE

18 London Street
London EC3R 7JP

REGISTERED NUMBER

2970319

FALCON AGENCIES LIMITED

Directors' Report

The directors present their report and the audited financial statements of the company for the year ended 31st December 1996.

Incorporation and Commencement of Trading

The Company was incorporated on 21st September 1994 and commenced trading on 1st January 1995. Under an agreement dated 26th October 1994 with SLA Holdings Limited (formerly Sturge Holdings PLC), the Company acquired the ongoing members' agency businesses at Lloyd's of R.W.Sturge Limited and Donner Underwriting Agencies Limited. Further details of that agreement are set out in the notes to the financial statements.

Principal Activities

The principal activity of the company is that of members' agents at Lloyd's.

Review of Business

During 1996, the Company acted for 941 active Names at Lloyd's (1995: 1,102) with a total premium income limit of £507 million (1995: £576 million). The Company also provided run-off services for former R.W.Sturge Limited and Donner Underwriting Agencies Limited Names no longer actively trading. The Company's contract in respect of Donner Names is now with Stafford Run-off Agency Limited. Lloyd's Reconstruction and Renewal programme has been implemented, enabling Names to ringfence themselves from exposure to business relating to 1992 and prior underwriting accounts. A large number of resigned Names have now left the market and a number of active Names used "finality" as a point in time to reassess whether they wished to continue underwriting. Consequently there has been a fall in both the number of active Names underwriting for 1997 and the number of run-off Names managed on behalf of R.W.Sturge Limited and Stafford Run-off Agency Limited. The position has been improved by the transfer in of a number of Names from the P.W.Kininmonth Agency, under a management agreement with that company, and a reorganisation of the Company to reflect the reduced servicing need. As part of the Reconstruction and Renewal plan (R&R), Lloyd's members' agents were required to pay a levy (the Pomeroy contribution) to Lloyd's. The Company's levy was £986,185. This will be paid out of profit commission arising on the 1995 underwriting account which will be accounted for in 1998.

The Company is acting for 804 Names in 1997 with a total premium income limit of £467 million.

Results and Dividends

The profit of the company for the period ended 31st December 1996 amounted to £ 584,422 (1995: £ 545,841) as set out in the profit and loss account on page 6.

A dividend on the £400,000 fixed cumulative preference shares of 6.8% net is payable amounting to £27,200 (1995: £27,200). Under the terms of the agreement with SLA Holdings Limited, no ordinary dividend is payable until the deferred consideration referred to in note 21 to the financial statements has been met. The retained profit for the period has been transferred to reserves.

FALCON AGENCIES LIMITED

Directors' Report

Fixed Assets

Movements in fixed assets in the period are detailed in notes 10 and 11 to the financial statements.

Directors

The directors of the company are shown on page 2.

All the directors served from 1st January 1996 to the date of this report with the exception of Mrs K.J. Armour who resigned on 31st January 1997.

Details of the interests of the directors in the shares of the parent company are shown in note 16 to the financial statements.

Directors' and officers' liability insurance has been purchased.

Statement of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and 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 accounts;
- prepare the accounts on a going-concern basis unless it is inappropriate to assume 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 enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

The Company's auditors, KPMG, resigned on 18th March 1997 and KPMG Audit Plc were appointed to fill the casual vacancy.

By order of the Board



N.D. Lewis
Secretary
9th May 1997

FALCON AGENCIES LIMITED

Auditors' Report

AUDITORS' REPORT TO THE MEMBERS OF FALCON AGENCIES LIMITED

We have audited the financial statements on pages 6 to 19.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 4, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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 the company's affairs as at 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

9th May 1997

FALCON AGENCIES LIMITED

Profit and Loss Account

for the year ended 31st December 1996

	Notes	Year ended 31/12/96 £	Period from 21/9/94 to 31/12/95 £
Turnover	3	3,967,094	4,195,271
Other operating income	4	1,225,503	1,463,264
Operating expenses	5	<u>(4,105,138)</u>	<u>(4,583,992)</u>
Operating profit		1,087,459	1,074,543
Interest receivable	7	136,954	85,229
Interest payable	7	(80,046)	(101,931)
Amortisation of goodwill	11	<u>(145,236)</u>	<u>(94,000)</u>
Profit on ordinary activities before taxation		999,131	963,841
Taxation on ordinary activities	8	<u>(414,709)</u>	<u>(418,000)</u>
Profit on ordinary activities after taxation		584,422	545,841
Dividend on non-equity shares	9	(27,200)	(27,200)
Retained profit for the year		<u>557,222</u>	<u>518,641</u>

Statement of retained profit

Retained profit at 1st January, 1996	518,641	0
Retained profit for the period	557,222	518,641
Retained profit at 31st December 1996	<u>1,075,863</u>	<u>518,641</u>

Turnover and expenses all relate to continuing operations.

There are no recognised gains or losses apart from those included in the profit and loss account for the year.

The notes on pages 9 to 19 form part of these financial statements.

FALCON AGENCIES LIMITED

Balance Sheet

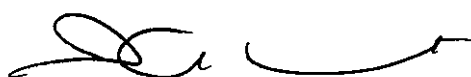
At 31st December 1996

	Notes	31/12/96 £	31/12/95 £
FIXED ASSETS			
Intangible Fixed Assets	11	441,339	404,160
Tangible fixed assets	10	53,183	64,213
CURRENT ASSETS			
Debtors falling due within one year	12	1,004,508	318,532
Debtors falling due after one year	12	1,106,681	130,253
Cash at bank		2,340,826	1,960,259
		<u>4,452,015</u>	<u>2,409,044</u>
CREDITORS			
Falling due within one year	13	(1,629,489)	(858,776)
NET CURRENT ASSETS		<u>2,822,526</u>	<u>1,550,268</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,317,048</u>	<u>2,018,641</u>
CREDITORS			
Falling due after one year	13	(1,741,185)	(1,000,000)
		<u>1,575,863</u>	<u>1,018,641</u>
CAPITAL AND RESERVES			
Called up share capital	15	500,000	500,000
Profit and loss account		1,075,863	518,641
SHAREHOLDERS' FUNDS (including non-equity shares -£400,000)		<u>1,575,863</u>	<u>1,018,641</u>
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS:			
Opening balance		1,018,641	0
Profit for the period		729,658	639,841
Dividend on preference shares		(27,200)	(27,200)
Shares issued		0	500,000
Goodwill written off		(145,236)	(94,000)
Closing shareholders' funds		<u>1,575,863</u>	<u>1,018,641</u>

The notes on pages 9 to 19 form part of these financial statements.

The financial statements were approved by the Board of Directors on 9th May 1997 and are signed on its behalf by:-

D.A. Cant
Director



FALCON AGENCIES LIMITED

Cash Flow Statement

for the year ended 31st December 1996

	Notes	Year ended 31/12/96 £	Period from 21/9/94 to 31/12/95 £
Net cash inflow from operating activities	24i	1,068,002	1,039,428
Return on investments and servicing of finance			
Interest received		136,954	85,229
Interest paid		(80,046)	(101,931)
Dividend paid		(27,200)	0
Net cash inflow/(outflow) from returns on investments and servicing of finance		<u>29,708</u>	<u>(16,702)</u>
Taxation			
Corporation tax paid (including advance corporation tax)		(427,509)	0
Investing activities			
Payments to acquire intangible fixed assets		(28,160)	(470,000)
Payments to acquire tangible fixed assets		<u>(16,474)</u>	<u>(92,467)</u>
Net cash outflow from investing activities		<u>(44,634)</u>	<u>(562,467)</u>
Net cash inflow before financing		625,567	460,259
Financing			
Issue of ordinary and preference share capital			500,000
(Redemption)/issue of subordinated loan notes		<u>(245,000)</u>	<u>1,000,000</u>
Net cash (outflow)/inflow from financing	24iv	<u>(245,000)</u>	<u>1,500,000</u>
Increase in cash and cash equivalents	24ii	<u>380,567</u>	<u>1,960,259</u>

FALCON AGENCIES LIMITED

Notes to the Financial Statements

1. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

2. ACCOUNTING POLICIES

a). Accounting Conventions

The financial statements have been prepared under the historical cost convention and on a going concern basis, consistently applied.

b). Turnover

Turnover represents agency and capacity auction fees, profit commission and winding-up fees which are accounted for as follows:

i). Agency and capacity auction fees are accounted for in the year in which they are due.

ii). Profit commission is accounted for in the year in which it is received. The Company's first entitlement to profit commission will be in respect of the underwriting year 1995 which will close at 31st December 1997.

iii). Winding-up fees are credited over three years starting with the year of receipt in order to match the fee with the associated costs.

c). Operating Expenses

Operating expenses are charged to the profit and loss account as incurred. Operating lease payments are taken to the profit and loss account on a straight line basis.

d). Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets on a straight line basis over their estimated useful lives as follows:

Computers	3 or 4 years
Office equipment	5 years

e). Taxation

Taxation is provided at rates of corporation tax ruling during the accounting period. Provision is made for deferred taxation, using the liability method, on any material short term timing differences which are expected to crystallise after one year.

f). Goodwill

Goodwill arising on the acquisition of businesses is written off over five years.

g). Pensions

The company operates a money purchase pension scheme. The cost of providing pensions under this scheme is charged to the profit and loss account of the year to which it relates.

FALCON AGENCIES LIMITED

Notes to the Financial Statements

3.	TURNOVER	Year to 31/12/96 £	Period to 31/12/95 £
	Profit commission	–	–
	Agency fees	3,745,390	4,175,147
	Capacity auction fees	93,234	9,401
	Winding-up fees	128,470	10,723
		<u>3,967,094</u>	<u>4,195,271</u>

Turnover is wholly derived within the United Kingdom

4.	OTHER OPERATING INCOME	Year to 31/12/96 £	Period to 31/12/95 £
	Management fees	1,204,728	1,447,773
	Consultancy fees	<u>20,775</u>	<u>15,491</u>
		<u>1,225,503</u>	<u>1,463,264</u>

Management fees are receivable under the agreements with R.W. Sturge Limited, Donner Underwriting Agencies Limited and subsequently Stafford Run-off Agency Limited, for handling the run-off of the affairs of the Names of those companies who resigned on or before 31st December 1994. Other fees represent charges to Lloyd's members in respect of dealings in the Lloyd's capacity auctions.

5.	OPERATING EXPENSES	Year to 31/12/96 £	Period to 31/12/95 £
	Included in operating expenses are:		
	Staff costs (see note 6)	2,114,726	2,384,221
	Depreciation	27,504	28,254
	Auditors' remuneration		
	– as auditors	9,500	7,500
	– for other services	15,000	27,500
	Operating leases	<u>5,906</u>	<u>3,445</u>

FALCON AGENCIES LIMITED

Notes to the Financial Statements

6. DIRECTORS' AND STAFF COSTS

a). Employment costs were as follows:	Year to 31/12/96 £	Period to 31/12/95 £
Salaries	1,594,313	1,864,090
Social security	159,263	154,751
Other pension costs	190,618	250,620
Other benefits	38,999	53,564
Temporary staff	15,458	7,196
Redundancy	116,075	54,000
	<u>2,114,726</u>	<u>2,384,221</u>

The average number of employees during the period was 42 (1995: 49)

b). Directors' emoluments included above, including pension contributions and benefits in kind, and including bonuses paid by SLA Holdings Limited, amounted to £889,513 (1995: £1,211,942).

c). Directors' emoluments, excluding pension contributions, included the following payments:

	31/12/96 £	31/12/95 £
Chairman	25,000	25,000
Highest paid director	<u>98,283</u>	<u>155,992</u>

d). The number of directors, including the chairman, who received emoluments (including benefits in kind but excluding pension contributions) in the following ranges were:

£		£	No.	No.
10,501	to	15,000	1	1
20,001	to	25,000	1	1
55,001	to	60,000	1	-
60,001	to	65,000	2	-
65,001	to	70,000	1	-
70,001	to	75,000	1	-
80,001	to	85,000	3	2
85,001	to	90,000	1	-
90,001	to	95,000	-	1
95,001	to	100,000	1	1
100,001	to	105,000	-	1
115,001	to	120,000	-	3
135,001	to	140,000	-	1
155,001	to	160,000	-	1

FALCON AGENCIES LIMITED

Notes to the Financial Statements

7. INTEREST

	31/12/96 £	31/12/95 £
Receivable:		
Other interest receivable	136,954	85,229
Payable:		
Interest on Loan Notes (see note 13)	80,046	101,931

Interest is payable on the £755,000 Loan Notes at 4% above Lloyds Bank base rate with the exception of the first £250,000 which is at 2% above.

8. TAXATION

	31/12/96 £	31/12/95 £
UK Corporation tax on:		
Profit for the year at 33%	412,000	418,000
Adjustment to prior year's tax charge	2,709	0
Deferred tax	0	0
	414,709	418,000

An asset amounting to approximately £1,800 (1995: £1,700) in respect of timing differences arising from accelerated capital allowances has not been recognised.

9. DIVIDEND

	31/12/96 £	31/12/95 £
On 6.8% Fixed Cumulative Preference shares -£400,000	27,200	27,200

Under the terms of the agreement with SLA Holdings Limited, no dividend is payable on the ordinary shares until the deferred purchase consideration referred to in note 21 has been met.

FALCON AGENCIES LIMITED

Notes to the Financial Statements

10. FIXED ASSETS – TANGIBLE ASSETS

	Computers and office equipment 31/12/96
COST	£
At 1st January, 1996	92,467
Additions	16,474
Disposals	0
At 31st December 1996	<u>108,941</u>
ACCUMULATED DEPRECIATION	
At 1st January, 1996	28,254
Charge for the year	27,504
On disposals	0
At 31st December 1996	<u>55,758</u>
NET BOOK VALUE	
At 31st December 1996	<u>53,183</u>
At 31st December 1995	<u>64,213</u>

11. FIXED ASSETS – GOODWILL

	31/12/96
COST	£
At 1st January 1996	498,160
Additions:	
Deferred purchase consideration (see note 21)	182,415
Balance at 31st December 1996	<u>680,575</u>
AMORTISATION	
At 1st January, 1996	94,000
Amortisation for the year	145,236
Balance at 31st December 1996	<u>239,236</u>
NET BOOK VALUE	
At 31st December 1996	<u>441,339</u>
At 31st December 1995	<u>404,160</u>

Goodwill arose on the purchase of the businesses of R.W.Sturge Limited and Donner Underwriting Agencies Limited.

FALCON AGENCIES LIMITED

Notes to the Financial Statements

12.	DEBTORS	31/12/96	31/12/95
	Amounts falling due within one year:	£	£
	Trade debtors	49,293	47,190
	Amount due by related company	186,497	81,520
	Other debtors	736,701	176,527
	Prepayments	32,017	13,295
		<u>1,004,508</u>	<u>318,532</u>
	Amounts falling due after one year:		
	Loans to Names	107,700	115,000
	Loans to staff	5,996	8,453
	Advance corporation tax on preference dividend	6,800	6,800
	Deferred expenses –Lloyd's levy (note 17)	986,185	–
		<u>1,106,681</u>	<u>130,253</u>
13.	CREDITORS:	31/12/96	31/12/95
	Amounts falling due within one year:	£	£
	Interest on loan notes	28,737	33,849
	Trade creditors	42,201	29,982
	UK Corporation tax	405,200	418,000
	Provision for –redundancy costs	116,812	40,000
	–office refurbishment	60,000	30,000
	Dividend	27,200	27,200
	Advance corporation tax on preference dividend	6,800	6,800
	Other creditors including income tax and social security	96,983	82,204
	Accruals and other deferred income	845,556	190,741
		<u>1,629,489</u>	<u>858,776</u>
	Amounts falling due after one year:		
	Lloyd's levy (note 17)	515,185	–
	Subordinated Loan Notes	755,000	1,000,000
	Deferred income –advance profit commission (note 17)	471,000	–
		<u>1,741,185</u>	<u>1,000,000</u>

The Loan Notes are issued to SLA Holdings Limited for the purposes of providing working capital and are subordinated to the claims of other creditors to the extent that they are needed by the Company to meet Lloyd's solvency requirements. They are repayable annually in tranches equal to 50% of the Company's retained profits, after deduction of the deferred purchase consideration referred to in note 21, less so much as may be required to maintain Lloyd's solvency. They are secured on a fixed and floating charge on the Company's trade and assets. The amount repayable in 1997, subject to Lloyd's approval, is £187,000 (1996: £245,000).

FALCON AGENCIES LIMITED

Notes to the Financial Statements

14. DEFERRED TAX

An asset amounting to approximately £1,800 (1995: £1,700) in respect of timing differences arising from accelerated capital allowances has not been recognised.

15. SHARE CAPITAL

	31/12/96	31/12/95
	£	£
Authorised:		
51,000 voting ordinary A shares of £1 each	51,000	51,000
49,000 voting ordinary B shares of £1 each	49,000	49,000
500,000 voting ordinary unclassified shares of £1 each	500,000	500,000
400,000 6.8% Fixed Cumulative Preference shares of £1 each	400,000	400,000
	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
51,000 voting ordinary A shares of £1 each	51,000	51,000
49,000 voting ordinary B shares of £1 each	49,000	49,000
400,000 6.8% Fixed Cumulative Preference shares of £1 each	400,000	400,000
	<u>500,000</u>	<u>500,000</u>

The preference shares are non-voting and are repayable on the same basis as the Loan Notes referred to in note 13 once those Loan Notes are fully repaid. The shares were issued as part of the consideration for the acquisition of the members' agency businesses from SLA Holdings Limited.

16. DIRECTORS' INTERESTS

Directors had no direct interest in the shares of the Company at 1st January 1996 or at 31st December 1996. The interests of directors and connected persons in the shares of the parent company (London Street Holdings Limited), which holds 51% of the Company's ordinary voting shares, were, at 1st January 1996 and at 31st December 1996, as follows:

	Ordinary shares held at-	
	1/1/96	31/12/96
A.M. Davies	9,000	9,192
N.P. Wentworth-Stanley	14,000	14,300
K.J. Armour	1,000	1,021
D.A. Cant	9,000	9,192
N.H.D. Carrick	9,000	9,191
T.R. Coleridge	9,000	9,191
N.J. Hanbury	9,000	9,192
C.J. Milln	9,000	9,191
R.A. Page	9,000	9,191
G.J. Podd	3,000	3,064
S.M. Wilcox	9,000	9,191

FALCON AGENCIES LIMITED

Notes to the Financial Statements

16. DIRECTORS' INTERESTS CONTINUED

The interests of directors or connected persons in the ordinary shares of Ockham Holdings PLC (the parent company of SLA Holdings Limited), a related company, were as follows:

	Ordinary shares held at-	
	1/1/96	31/12/96
A.M. Davies	21,481	21,481
N.P. Wentworth-Stanley	2,568	2,568
K.J. Armour	1,927	1,927
D.A. Cant	8,723	8,723
N.H.D. Carrick	268	268
T.R. Coleridge	702,887	702,887
R.A. Page	5,126	5,126
G.J. Podd	26,512	26,512
S.M. Wilcox	18,605	18,605

The company acts for directors in respect of their underwriting membership of Lloyd's with the exception of P.R Nutting, K.J Armour, who is not a member, and G.J.Podd, who ceased active underwriting in 1994. Standard rates of fee and profit commission are charged.

A.M. Davies has interests in the share capital of Lloyd's managing agencies with which the Company has sub-agency agreements as follows:-

J.E. Mumford (Underwriting Agencies) Limited	16.7%	voting shares
J.E. Mumford (Holdings) Limited	7.15%	voting shares
Sterling Underwriting Agencies Limited	3.2%	non-voting shares

S.M. Wilcox is a director of Cox Newton Harman Limited with which the Company has a sub-agency agreement.

D.A. Cant, K.J. Armour and G.J. Podd are or were directors of Stafford Run-off Agency Limited and R.W.Sturge Limited, with which the Company has, or had during the year, agreements for the run-off of the affairs of Names who resigned on or before 31st December 1994. K.J. Armour resigned as a director of those companies on 28th January 1997.

No other contracts of significance subsisted during or at the end of the financial year in which a director was materially interested, except that the premium on a directors and officers liability insurance policy was paid in full by the Company.

FALCON AGENCIES LIMITED

Notes to the Financial Statements

17. CAPITAL COMMITMENTS –POMEROY CONTRIBUTION

Under the Reconstruction and Renewal plan (R&R), Lloyd's members agents were required to pay a levy to the market, (the Pomeroy contribution). The Pomeroy contribution was applied to the entire active Lloyd's market for the 1993 to 1995 underwriting years of account and was allocated to individual underwriting agents on a pro-rata basis to capacity.

The Company commenced trading on 1st January 1995, and, accordingly, is only liable for a levy based on the 1995 underwriting capacity of its Names. The total levy for the Company amounted to £986,185. This will be paid out of profit commission arising on the 1995 underwriting account which will be accounted for in 1998. In order to assist the financing of the levy, R&R also enabled agents to take accelerated credit for part of the profit commission arising from the 1995 year of account. The Company's accelerated share of profit commission arising on the 1995 year of account amounted to £471,000 and this has been applied by Lloyd's in partial settlement of the levy. The balance of the levy of £515,185 will be paid in 1998 on receipt of the profit commission. Interest is being charged on the balance at 2% above base rate.

In the light of the above, no amounts have been recognised in the profit and loss account to date. The whole of the levy has been treated as a deferred expense and the advance release of 1995 profit commission has been treated as deferred income.

18. OPERATING LEASE COMMITMENTS

	Motor vehicle 31/12/96	Motor vehicle 31/12/95
Commitments expiring:		
Within one year	£	£
Two to five years	5,906	5,906
	2,461	8,367
	<u>8,367</u>	<u>14,273</u>

19. PENSION SCHEME

The Company operates a defined contribution pension scheme the assets of which are held separately in independently administered funds. The pension costs charge, as disclosed in note 6, represents contributions payable by the Company to the fund, and formerly to the SLA Holdings Limited fund, during the year. Contributions outstanding at the year end of £12,500 have been included in creditors.

20. CONTINGENT LIABILITIES

There is a £15,711 facility at the Company's bank in respect of a lost share certificate in Unilever Plc whereby that company required an indemnity as they have issued a replacement certificate without the original being available.

FALCON AGENCIES LIMITED

Notes to the Financial Statements

21. DEFERRED PURCHASE CONSIDERATION

Under the terms of the agreement dated 26th October 1994 with SLA Holdings Limited for the acquisition of its members' agency businesses by the Company, a further consideration is payable by the Company equivalent to 60% of the net after tax profit commission receivable in the calendar years 1995 to 1999 plus 25% of the excess over £500,000 of the cumulative net after tax profits of the Company (excluding profit commission and amortisation of goodwill).

22. FRS 8 -RELATED PARTY TRANSACTIONS

As part of the agreement referred to in note 21 above, the Company is provided with goods and services by SLA Holdings Limited, a related company. The charge for these goods and services in 1996 was £813,537 (1995: £1,160,757).

23. PARENT COMPANY

The Company's ultimate parent company is London Street Holdings Limited, a company registered in England and Wales. Copies of that company's financial statements can be obtained from the company secretary at 18 London Street, London, EC3R 7JP.

FALCON AGENCIES LIMITED

Notes to the Financial Statements

24. CASH FLOW STATEMENT

	Year ended 31/12/96 £	Period from 21/9/94 to 31/12/95 £
(i) Reconciliation of operating profit with net cash inflow from operating activities.		
Operating profit	1,087,459	1,074,543
Depreciation charges	27,504	28,254
Increase in debtors	(1,662,404)	(448,785)
Increase in creditors	1,615,443	385,416
Net cash inflow from operating activities	1,068,002	1,039,428
(ii) Analysis of changes in cash and cash equivalents during the period.		
Balance at beginning of period	1,960,259	0
Net cash inflow	380,567	1,960,259
Balance at period end	2,340,826	1,960,259
(iii) Analysis of balances of cash and cash equivalents as shown in the balance sheet.		
	31/12/96	31/12/95
Cash at bank and in hand	2,340,826	1,960,259
(iv) Analysis of changes in financing during the year		
	Share capital	Subordinated Loan Notes
Balance at 1st January 1996	500,000	1,000,000
Cash outflow from financing	0	(245,000)
Balance at 31st December 1996	500,000	755,000