

Falcon Agencies Limited

Directors' report and financial statements

31 December 1995

Registered number 2970319



Falcon Agencies Limited

Directors' report and financial statements

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Falcon Agencies Limited

Company information

Directors

AM Davies MA FCA	*(Chairman)	(appointed 26 October 1994)
NW Wentworth-Stanley	(Managing)	(appointed 26 October 1994)
KJ Armour		(appointed 26 October 1994)
DA Cant BSc ACA	(Finance)	(appointed 26 October 1994)
NHD Carrick FCII		(appointed 26 October 1994)
TR Coleridge		(appointed 26 October 1994)
NJ Hanbury		(appointed 26 October 1994)
CJ Milln		(appointed 26 October 1994)
PR Nutting	*	(appointed 20 March 1995)
RA Page		(appointed 26 October 1994)
GJ Podd		(appointed 26 October 1994)
SM Wilcox ACII		(appointed 26 October 1994)

* Non-executive

Secretary

ND Lewis FCA (appointed 26 October 1994)

Auditors

KPMG
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 annual report and the audited financial statements for the period ended 31 December 1995.

Incorporation and commencement of trading

The company was incorporated on 21 September 1994 and changed its name from Dealimport Limited to Falcon Agencies Limited on 6 October 1994. Under an agreement dated 26 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. The company commenced trading on 1 January 1995.

Principal activities

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

Business review

During 1995 the company acted for 1102 active Names with a total premium income limit of £576 million. For the 1996 underwriting account, Names' total premium limits will be in the region of £503 million. The company also provides run-off services under a contract with R.W. Sturge Limited and Donner Underwriting Agencies Limited in respect of their Names who ceased active underwriting on or before 31 December 1994.

In the summer of 1995, the Council of Lloyd's published its plan for "Reconstruction and Renewal". The essential elements of the plan include the reinsurance of all syndicate liabilities arising on the 1992 and prior years of account, and the settlement of litigation with all members. The plan will require substantial contributions from market entities including underwriting agents. The board will give full consideration to this when all of the details are known but believes the success of the plan to be vital to the future of the company and expects to give it full support.

To assist Names to meet their "finality bills" as described in the plan, it is intended that, in addition to profits arising in the 1993 year, an early release of profits from the 1994 and 1995 years will be made at the same time. Members and managing agents will be permitted to deduct their profit commissions from these releases (1995 profits in the case of the company) to assist them in meeting their contributions.

Results and dividends

The profit of the company for the period ended 31 December 1995 amounted to £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. 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 *(continued)*

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 1.

All the directors served from their appointment on 24 October 1994 to the date of this report with the exception of Mr PR Nutting, who was appointed on 20 March 1995.

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.

By order of the board



ND Lewis
Secretary

18 London Street
London
EC3R 7JP

30 April 1996

Falcon Agencies Limited

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 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 accounts;
- prepare the accounts on the 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.



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditors' report to the members of Falcon Agencies Limited

We have audited the financial statements on pages 6 to 20.

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 31 December 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG
Chartered Accountants
Registered Auditors
London

30 April 1996

Falcon Agencies Limited

Profit and loss account for the period ended 31 December 1995

	<i>Note</i>	Period from 21 September 1994 to 31 December 1995 £
Turnover	3	4,185,870
Other operating income	4	1,472,665
Operating expenses	5	(4,583,992)
Operating profit		1,074,543
Interest receivable	7	85,229
Interest payable	7	(101,931)
Amortisation of goodwill		(94,000)
Profit on ordinary activities before taxation		963,841
Taxation on ordinary activities	8	(418,000)
Profit on ordinary activities after taxation		545,841
Dividend on non-equity shares	9	(27,200)
Retained profit for the year		518,641

Statement of retained profit

	£
Retained profit at 21 September 1994	-
Retained profit for the period	518,641
Retained profit at 31 December 1995	518,641

This is the company's first period of trading and there are therefore no comparative figures.

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 20 form part of these financial statements.

Falcon Agencies Limited

Balance sheet at 31 December 1995

	Note	31 December 1995 £
Fixed assets		
Goodwill	11	404,160
Tangible assets	10	64,213
		<hr/>
Current assets		
Debtors falling due within one year	12	318,532
Debtors falling due after one year	12	130,253
Cash at bank		2,011,682
		<hr/>
		2,460,467
Creditors: falling due within one year	13	(910,199)
		<hr/>
Net current assets		1,550,268
		<hr/>
Total assets less current liabilities		2,018,641
Creditors: amounts falling due after one year	13	(1,000,000)
		<hr/>
		1,018,641
		<hr/>
Capital and reserves		
Called up share capital	15	500,000
Profit and loss account		518,641
		<hr/>
Shareholders funds (including non-equity shares - £400,000)		1,018,641
		<hr/>
Reconciliation of movements in shareholders' funds:		
Opening balance		-
Profit for the period		639,841
Dividend on preference shares		(27,200)
Shares issued		500,000
Goodwill written off		(94,000)
		<hr/>
Closing shareholders' funds (net addition)		1,018,641
		<hr/>

These financial statements were approved by the board of directors on 30 April 1996 and were signed on its behalf by:

DA Cant
Director



The notes on pages 9 to 20 form part of these financial statements.

Falcon Agencies Limited

Cash flow statement

for the period ended 31 December 1995

	<i>Note</i>	Period from 21 September 1994 to 31 December 1995 £ £
Net cash inflow from operating activities	23i	1,039,428
Return on investments and servicing of finance		
Interest received		85,229
Interest paid		(101,931)
		<hr/>
Net cash outflow from returns on investments and the servicing of finance		(16,702)
Taxation		
Corporation tax paid (including advance corporation tax)		-
		<hr/>
Tax paid		-
Investing activities		
Payments to acquire intangible fixed assets		(470,000)
Payments to acquire tangible fixed assets		(92,467)
		<hr/>
Net cash outflow from investing activities		(562,467)
Net cash inflow before financing		460,259
Financing		
Issue of ordinary share capital		500,000
Issue of subordinated loan notes		1,000,000
		<hr/>
Net cash inflow from financing	23iv	1,500,000
Increase in cash and cash equivalents	23ii	<hr/> 1,960,259 <hr/>

Falcon Agencies Limited

Notes

(forming part of 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 fees and winding-up fees which are accounted for as follows:

- (i) Agency 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 31 December 1997 (subject to any early release under the plan for Reconstruction and Renewal).
- (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 and office equipment - 3 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.

Falcon Agencies Limited

Notes (continued)

2 Accounting policies (continued)

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.

3 Turnover

	Period to 31 December 1995 £
Profit commission	-
Agency fees	4,175,147
Winding-up fees	10,723
	<hr/>
	4,185,870

4 Other operating income

	Period to 31 December 1995 £
Management fees	1,447,773
Consultancy fees	15,491
Other fees	9,401
	<hr/>
	1,472,665

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 31 December 1994.

Falcon Agencies Limited

Notes (continued)

5 Operating expenses

Included in operating expenses are:

	Period to 31 December 1995 £
Staff costs (see note 6)	2,384,221
Depreciation	28,254
Auditors remuneration	
- as auditors	7,500
- for other services	27,500
Operating leases	3,445
	<hr/>

6 Directors' and staff costs

	Period to 31 December 1995 £
a) Employment costs were as follows:	
Salaries	1,864,090
Social security	154,751
Other pension costs	250,620
Other benefits	53,564
Temporary staff	7,196
Redundancy	54,000
	<hr/>
	2,384,221
	<hr/>

The average number of employees during the period was 49.

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

c) Directors emoluments, excluding pension contributions, related to:

	Period to 31 December 1995 £
Chairman	25,000
Highest paid director	155,992
	<hr/>

Falcon Agencies Limited

Notes (continued)

6 Directors' and staff costs (continued)

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

			Number of directors
£10,501	-	£15,000	1
£20,001	-	£25,000	1
£80,001	-	£85,000	2
£90,001	-	£95,000	1
£95,001	-	£100,000	1
£100,001	-	£105,000	1
£115,001	-	£120,000	3
£135,001	-	£140,000	1
£155,001	-	£160,000	1

7 Interest

	Period to 31 December 1995 £
Receivable:	
Other interest receivable	<u>85,229</u>
Payable:	
Interest on Loan Notes (see note 13)	<u>101,931</u>

Interest is payable on the £1,000,000 Loan Notes at 4% above Lloyds Bank base rate with the exception of the first £250,000 which is at 2% above.

8 Taxation

	Period to 31 December 1995 £
UK corporation tax on:	
Profit for the year at 33%	418,000
Deferred tax	-
	<u>418,000</u>

No credit has been taken for timing differences arising from accelerated capital allowances amounting to some £1,700.

Falcon Agencies Limited

Notes (continued)

9 Dividends

	Period to 31 December 1995 £
On 6.8% Fixed Cumulative Preference shares - £400,000	<u>27,200</u>

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.

10 Fixed assets - tangible assets

	Computers and office equipment £	Total £
<i>Cost</i>		
Acquired under agreement with SLA Holdings Limited on 26 October 1994:		
At existing net book value	52,578	52,578
Additions	39,889	39,889
Disposals	-	-
	<hr/>	<hr/>
At 31 December 1995	<u>92,467</u>	<u>92,467</u>
<i>Accumulated depreciation</i>		
Charge for the year	28,254	28,254
On disposals	-	-
	<hr/>	<hr/>
At 31 December 1995	<u>28,254</u>	<u>28,254</u>
<i>Net book value</i>		
At 31 December 1995	<u>64,213</u>	<u>64,213</u>

Falcon Agencies Limited

Notes (continued)

11 Fixed assets - goodwill

	31 December 1995 £
The cost of the goodwill in the businesses of R.W. Sturge Limited and Donner Underwriting Agencies amounted to	470,000
Deferred purchase consideration (see note 21)	28,160
Amortisation for the period	(94,000)
	<hr/>
Balance at 31 December 1995	404,160
	<hr/>

12 Debtors

	31 December 1995 £
<i>Amounts falling due within one year</i>	
Trade debtors	47,190
Amount due by related company	81,520
Other debtors	176,527
Prepayments	13,295
	<hr/>
	318,532
	<hr/>
<i>Amounts falling due after one year</i>	
Loans to Names	115,000
Loans to staff	8,453
Advanced corporation tax on preference dividend	6,800
	<hr/>
	130,253
	<hr/>

Falcon Agencies Limited

Notes (continued)

13 Creditors

31 December 1995

£

Amounts falling due within one year

Interest on loan notes	33,849
Bank overdraft	51,423
Trade creditors	29,982
UK corporation tax	418,000
Provision	
- redundancy costs	40,000
- office refurbishment	30,000
Dividend	27,200
Advanced corporation tax on preference dividend	6,800
Other including income tax and social security	82,204
Accruals and deferred income	190,741

910,199

Amounts falling due after one year

Subordinated loan notes	1,000,000
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The Loan Notes are issued to SLA Holding 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 post tax 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.

14 Deferred tax

No credit has been taken for timing differences of some £1,700 arising from accelerated capital allowances and there is therefore no provision for deferred taxation.

Falcon Agencies Limited

Notes (continued)

15 Share capital

31 December 1995
£

Authorised

51,000 voting ordinary A shares of £1 each	51,000
49,000 voting ordinary B shares of £1 each	49,000
500,000 voting ordinary unclassified shares of £1 each	500,000
400,000 6.8% fixed cumulative preference shares of £1 each	400,000
	<hr/>
	1,000,000
	<hr/>

Allotted, called up and fully paid

51,000 voting ordinary A shares of £1 each	51,000
49,000 voting ordinary B shares of £1 each	49,000
400,000 6.8% fixed cumulative preference shares of £1 each	400,000
	<hr/>
	500,000
	<hr/>

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.

Falcon Agencies Limited

Notes (continued)

16 Directors interests

Directors had no direct interest in the shares of the Company at the date of their appointment or at 31 December 1995. 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 26 October 1994 (the date of their appointment) and at 31 December 1995, as follows:

	Ordinary shares held at -	
	31 December 1995	26 October 1994
AM Davies	10,000	9,000
NP Wentworth-Stanley	14,000	14,000
KJ Armour	1,000	1,000
DA Cant	9,000	9,000
NHD Carrick	9,000	9,000
TR Coleridge	9,000	9,000
NJ Hanbury	9,000	9,000
CJ Milln	9,000	9,000
RA Page	9,000	9,000
GJ Podd	3,000	3,000
SM Wilcox	9,000	9,000

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

	Ordinary shares held at -	
	31 December 1995	26 October 1994
AM Davies	21,481	21,481
NP Wentworth-Stanley	2,568	2,568
KJ Armour	1,927	1,927
DA Cant	8,723	8,723
NHD Carrick	268	268
TR Coleridge	702,887	702,887
RA Page	5,126	5,126
GJ Podd	26,512	26,512
SM Wilcox	18,605	8,851

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

Falcon Agencies Limited

Notes (continued)

16 Directors interests *(continued)*

AM Davies has interest in the share capital of Lloyd's managing agencies with which the Company has sub-agency agreements as follows:

JE Mumford (Underwriting Agencies) Limited	16.7%	Voting shares
JE Mumford (Holdings) Limited	7.15%	Voting shares
Sterling Underwriting Agencies Limited	3.2%	Non-voting shares

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

DA Cant, KJ Armour and GJ Podd are or were directors of Stafford Run-off Agency Limited, RW Sturge Limited, and Donner Underwriting Agencies 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 31 December 1994. They resigned as directors of Donner Underwriting Agencies Limited on 4 July 1995.

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.

17 Capital commitments

There were no capital commitments contracted for but not provided for in the financial statements.

18 Operating lease commitments

	Motor vehicles £
Commitments expiring:	
Within one year	5,906
Two to five years	8,367
	<hr/>
	14,273
	<hr/>

Falcon Agencies Limited

Notes (continued)

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 represents contributions payable by the Company to the fund, and formerly to the SLA Holdings Limited fund, during the period. Contributions outstanding at the year end amounted to £12,500.

20 Contingent liabilities

A facility exists with the Company's bankers whereby credit is given for foreign currency items pending collection. The Company remains liable to the bank until such funds are cleared.

21 Deferred purchase consideration

Under the terms of the agreement dated 26 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 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 (continued)

23 Notes to the cash flow statement

(i) Reconciliation of operating profit to net cash inflow from operating activities.

	Period to 31 December 1995 £
Operating profit	1,074,543
Depreciation charges	28,254
Increase in debtors	(448,785)
Increase in creditors	385,416
	<hr/>
Net cash inflow from operating activities	1,039,428

(ii) Analysis of changes in cash and cash equivalents during the period.

	£
Balance at 21 September 1994	-
Net cash inflow	1,960,259
	<hr/>
	1,960,259

(iii) Analysis of the balances of cash and cash equivalents as shown in the balance sheet.

	31 December 1995 £	21 September 1994 £
Cash at bank and in hand	2,011,682	-
Bank overdraft	(51,423)	-
	<hr/>	<hr/>
	1,960,259	-

(iv) Analysis of changes in financing during the year

	Share capital £	Subordinated loan notes £
Balance at 21 September 1994	-	-
Cash inflow from financing	500,000	1,000,000
	<hr/>	<hr/>
Balance at 31 December 1995	500,000	1,000,000