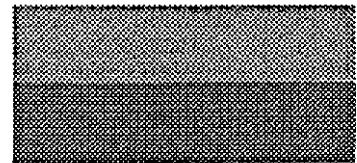


2983302

Tarquin plc



Report and Accounts 1996



TARQUIN plc

DIRECTORS

J.R. Charman - Chief Executive Officer
J.J. Lloyd - Chief Financial Officer
S.B. Gruber - Vice-President
R.A. Spass - Vice-President
P.H. Warren - Vice-President
T.R. Palmer
J.J.B. Skinner

SECRETARY

J.J. Lloyd

AUDITORS

Price Waterhouse
Southwark Towers
32 London Bridge Street
London SE1 9SY

BANKERS

The Chase Manhattan Bank NA
Woolgate House
Coleman Street
London EC2P 2HD

REGISTERED OFFICE

1 Minster Court
Mincing Lane
London EC3R 7AA

REGISTERED NUMBER

2983302

TARQUIN plc

REPORT AND ACCOUNTS

31st December 1996

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TARQUIN plc

DIRECTORS REPORT

The Directors present their report and accounts for the year ended 31st December 1996

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires 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 and 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;
- comply with applicable accounting standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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 financial statements 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.

RESULTS AND DIVIDENDS

The consolidated group profit for the year, after taxation, amounted to £6,864,513 (1995: restated profit of £166,663) which has been added to reserves. The directors do not recommend the payment of a dividend (1995: £nil).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The company's principal activity during the year under review continued to be that of a holding company. The company owns all of the issued share capital of Charman Group Limited whose principal activities are that of a holding company and a provider of management services. Charman Group Limited is the parent of Charman Underwriting Agencies Limited, a Lloyd's underwriting agent which manages two active syndicates - 488 and 2488. The company also owns all of the issued share capital of Tarquin Underwriters Limited which is a corporate underwriting member of Lloyd's being the sole member of Syndicate 2488. The syndicate commenced underwriting for the 1995 account with a capacity of £160,000,000 which has increased to £190,000,000 for 1996 and to just over £200,000,000 for 1997. The results for the Syndicate's first year of underwriting will not be determined until 31st December 1997 but current indications suggest that the year will close with a satisfactory underwriting profit.

During the year under review, Lloyd's successfully initiated its Reconstruction and Renewal Plan, setting up Equitas in order to handle run-off years prior to 1993 in the process. Charman Underwriting Agencies Limited's contribution to the Reconstruction and Renewal Plan amounted to £4,474,929 and this sum was financed by profit commissions calculated on the early release of profits for the 1995 underwriting accounts of Syndicate 488 and 2488.

FUTURE DEVELOPMENTS

With the successful conclusion of Lloyd's Reconstruction and Renewal Plan, the directors are confident that the company will benefit from the opportunities which the future development of the Lloyd's insurance market will bring.

TARQUIN plc

DIRECTORS REPORT

CHANGES IN THE PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Schedule 1, Part 1 of the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 which amends section 255 and Schedule 9A of the Companies Act 1985 and came into effect for periods commencing on or after 23rd December 1994.

The comparatives for 1995 have been restated to reflect the requirements of Section 255 and Schedule 9A of the Companies Act 1985.

DIRECTORS AND THEIR INTERESTS

The directors who held office between 1st January and 31st December 1996 and their interests in the shares of Tarquin plc are as follows:

	31st December 1996		31st December 1995	
	US\$ 1	£ 1	US\$ 1	£ 1
	"A" Ordinary Shares	Deferred Shares	"A" Ordinary Shares	Deferred Shares
J.R. Charman	427,823	1,678	422,221	1,678
J.J. Lloyd	130,091	774	128,384	510
S.B. Gruber	-	-	-	-
R.A. Spass	-	-	-	-
P.H. Warren	-	-	-	-
M.N. Williamson - resigned 15th May 1996	-	-	-	-
T.R. Palmer - appointed 19th November 1996	-	-	-	-
J.J.B. Skinner - appointed 27th February 1996	-	-	-	-

No director had any material interest in any contract with the company or which was significant in relation to the directors or to the business of the company.

DIRECTORS' AND OFFICERS' LIABILITY

Insurance cover is held by the group to indemnify directors and officers as permitted by Section 310 of the Companies Act 1985.

AUDITORS

Price Waterhouse have indicated their willingness to continue in office. A resolution to re-appoint them will be proposed to members at the forthcoming annual general meeting.

Approved by the Board on 25th July 1997 and signed on its behalf by:


J.J. Lloyd
Secretary

1 Minster Court
Mincing Lane
London EC3R 7AA
25th July 1997

**REPORT OF THE AUDITORS
TO THE MEMBERS OF
TARQUIN plc**

We have audited the Financial Statements on pages 4 to 25 which have been prepared in accordance with the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

As described on page 1, 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 report our opinion to you.

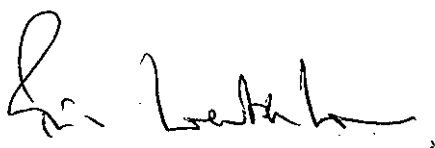
Basis of opinion

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 and of the group 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.



Price Waterhouse

Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY

25th July 1997

TARQUIN plc**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

for the year ended 31st December 1996

Technical Account - General Insurance Business

	<i>Notes</i>	<i>1996</i> £	<i>1995</i> £ <i>Restated</i>
Gross premiums written		126,258,522	166,338,104
Reinsurance to close earlier years	2	32,085,631	0
Outward reinsurance premiums		(24,980,924)	(37,056,306)
Gross premiums net of reinsurance		133,363,229	129,281,798
Allocated investment return transferred from the non-technical account		2,379,006	618,300
Total Technical Income		£ 135,742,235	£ 129,900,098
Claims incurred, net of reinsurance			
Gross claims paid		(22,078,068)	(3,780,683)
Reinsurers' share		11,834,693	455,240
		(10,243,375)	(3,325,443)
Change in the provision for claims			
Gross amount		(118,165,668)	(94,054,038)
Reinsurers' share		20,629,317	888,391
		(97,536,351)	(93,165,647)
Claims incurred, net of reinsurance		(£ 107,779,726)	(£ 96,491,090)
Currency exchange adjustment		4,029,182	0
Administrative expenses		(11,206,454)	(8,828,691)
Acquisition costs		(20,785,237)	(24,580,317)
Balance on the Technical Account for General Insurance Business		£ 0	£ 0

All of the above amounts are in respect of continuing operations.

TARQUIN plc**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

for the year ended 31st December 1996

Non-Technical Account	<i>Notes</i>	1996 £	1995 £ <i>Restated</i>
Balance on general insurance business technical account		0	0
Investment income - syndicate participation		2,379,006	618,300
- group	3	3,407,946	3,295,164
Unrealised gains on investments		46,022	0
Investment expenses and charges		(7,482)	0
Unrealised losses on investments		(323,730)	0
Investment return transferred to the technical account		(2,379,006)	(618,300)
Other Income	4	21,205,574	11,177,139
Interest Payable	5	(3,340,645)	(3,273,365)
Other operating costs	6	(12,872,103)	(7,914,047)
Profit on ordinary activities before tax		8,115,582	3,284,891
Tax on profit on ordinary activities	9	(1,251,069)	(3,118,228)
Profit on ordinary activities after taxation		£ 6,864,513	£ 166,663
Earnings per Share	10	90.67p	2.77p

The group's turnover and expenses all relate to continuing operations.

The group has no recognised gains or losses other than the profit for the year and therefore no separate statement of total gains or losses has been presented.

The accounting policies and notes on pages 10 to 25 form an integral part of these financial statements.

TARQUIN plc**CONSOLIDATED BALANCE SHEET**

At 31st December 1996

Assets

		1996	1995
	Notes	£	£
Investments			<i>Restated</i>
Intangible asset	11	34,344,958	35,838,217
Tangible fixed assets	12	908,247	1,103,769
Funds at Lloyds	13	54,434,305	43,388,387
Financial investments	14	46,547,952	3
Deposits with credit institutions		6,375,123	0
Purchases of syndicate capacity	15	384,690	0
		<u>£ 142,995,275</u>	<u>£ 80,330,376</u>
Reinsurers' Share of Technical Provisions			
Claims outstanding		21,517,708	888,391
Debtors			
Due within one year			
Arising out of direct insurance operations - intermediaries		63,681,175	53,181,846
Arising out of reinsurance operations		65,109,816	13,080,889
Other debtors	17	6,009,234	2,082,452
		<u>£ 134,800,225</u>	<u>£ 68,345,187</u>
Debtors			
Due after one year			
Arising out of direct insurance operations - intermediaries		563,087	1,086,314
Arising out of reinsurance operations		161,823	5,952
Other debtors	17	56,534	0
		<u>£ 781,444</u>	<u>£ 1,092,266</u>
Other Assets			
Cash at bank and in hand	18	17,428,880	30,345,626
Overseas deposits	19	3,604,717	5,855,689
		<u>£ 21,033,597</u>	<u>£ 36,201,315</u>
Prepayments and accrued income	20	920,106	483,372
Total Assets		<u>£ 322,048,355</u>	<u>£ 187,340,907</u>

TARQUIN plc**CONSOLIDATED BALANCE SHEET**

At 31st December 1996

Liabilities		1996	1995
	<i>Notes</i>	£	£
			<i>Restated</i>
Capital and Reserves			
Called up share capital - equity	21	4,844,582	4,844,582
- non-equity	21	10,570	10,570
Share Premium Account	22	43,601,242	43,601,242
Profit and Loss Account	23	7,031,176	166,663
Currency Exchange Revaluation Reserve		(259,019)	393,063
Shareholders funds - equity interests (including £10,570 non-equity interests)	24	<u>£ 55,228,551</u>	<u>£ 49,016,120</u>
Technical Provisions			
Gross claims outstanding		212,219,706	94,054,038
Creditors			
Amounts falling due within one year			
Arising out of direct insurance operations		1,500,438	1,593,603
Arising out of reinsurance operations		14,249,326	858,180
Other creditors	25	11,488,077	9,597,024
		<u>£ 27,237,841</u>	<u>£ 12,048,807</u>
Creditors			
Amounts falling due after one year			
Arising out of direct insurance operations		300,510	523,117
Arising out of reinsurance operations		407	147
Other creditors	25	27,061,340	31,698,678
		<u>£ 27,362,257</u>	<u>£ 32,221,942</u>
Total Liabilities		<u>£ 322,048,355</u>	<u>£ 187,340,907</u>

The financial statements on pages 4 to 25 were approved by the Board on 25th July 1997 and signed on its behalf by:


J.J. Lloyd
Director

TARQUIN plc**COMPANY BALANCE SHEET**

At 31st December 1996

	<i>Notes</i>	<i>1996</i> £	<i>1995</i> £
Fixed Assets			
Shares in subsidiary undertakings	16	81,535,091	81,535,091
Current Assets			
Debtors	17	3,476,900	1,471,851
Cash at bank and in hand	18	73,798	245,341
		<u>3,550,698</u>	<u>1,717,192</u>
Prepayments and accrued income	20	0	3,638
Creditors			
Creditors - amounts falling due within one year	25	(1,976,430)	(3,638,539)
Net Current Assets/(Liabilities)		<u>£ 1,574,268</u>	<u>(£ 1,917,709)</u>
Total Assets less Current Liabilities		83,109,359	79,617,382
Creditors			
Creditors - amounts falling due after one year	25	(26,860,234)	(31,616,129)
		<u>£ 56,249,125</u>	<u>£ 48,001,253</u>
Capital and Reserves			
Called up share capital - equity	21	4,844,582	4,844,582
- non-equity	21	10,570	10,570
Share premium	22	43,601,242	43,601,242
Profit and loss account	23	5,157,493	(251,966)
Currency Exchange Revaluation Reserve		2,635,238	(203,175)
Shareholders funds - equity interests (including £10,570 non-equity interests)		<u>£ 56,249,125</u>	<u>£ 48,001,253</u>

TARQUIN plc**CONSOLIDATED CASH FLOW STATEMENT**

At 31st December 1996

	Notes	1996 £	1996 £	1995 £ <i>Restated</i>	1995 £ <i>Restated</i>
Net cash inflow from operating activities	30		9,781,486		5,037,820
Returns on investment and servicing of finance					
Interest received		2,589,561		3,294,938	
Interest paid		<u>(3,405,978)</u>		<u>(3,205,847)</u>	
Net cash (outflow)/inflow from returns on investments and servicing of finance			(816,417)		89,091
Taxation					
Tax paid			(6,365,431)		(91,640)
Investing activities					
Purchase of fixed assets		(121,018)		(886,980)	
Purchase of Subsidiary Undertakings (Net of cash and cash equivalents)	31	0		(13,546,745)	
Purchase of Syndicate Capacity		(384,690)		0	
Deposit of Funds at Lloyd's		0		(43,388,387)	
Sale of fixed assets		<u>17,600</u>		<u>21,195</u>	
Net cash outflow from investing activities			<u>(488,108)</u>		<u>(57,800,917)</u>
Net cash outflow before financing			2,111,530		(52,765,646)
Financing					
Issue of ordinary share capital		709,677		30,604,010	
Expenses paid in connection with issue of shares		0		(6,689,009)	
Repayment of amounts borrowed		(1,797,000)		0	
New medium term bank loans		<u>0</u>		<u>32,607,743</u>	
Net cash (outflow)/inflow from financing			(1,087,323)		56,522,744
Increase in cash and cash equivalents	35		<u>£ 1,024,207</u>		<u>£ 3,757,098</u>

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

1 Accounting Policies

Accounting Basis

The consolidated financial statements for the current year have been prepared in accordance with the provisions of Section 255 and Schedule 9A to the Companies Act 1985, which cover the disclosures applicable to insurance companies. In the previous reporting period the financial statements were prepared in accordance with Schedule 4 to the Companies Act 1985, therefore the corresponding amounts have been restated to be consistent with those of the current year.

The financial statements have been prepared in accordance with applicable accounting standards and with the draft Statement of Recommended Practice issued by the Association of British Insurers in May 1995 and with draft guidance on accounting for Lloyd's corporate capital issued by the Institute of Chartered Accountants in England and Wales.

Accounting Convention

The accounts have been prepared under the historical cost convention modified to include the revaluation of fixed asset investments.

Basis of Consolidation

The consolidated accounts incorporate the accounts of the company and all of its subsidiaries with the exception of Charman Trustees Limited which is excluded from consolidation as the directors consider that the amounts involved are not material. These accounts include transactions and balances in respect of the group's participation in the underwriting activities of Syndicate 2488. Certain expenses of Syndicate 2488 which have been paid to Charman Underwriting Agencies Limited have not been eliminated on consolidation because of the funded method which has been used to account for underwriting activities. All group companies have prepared their accounts for a period of twelve months to 31st December 1996.

The consolidated cash flow statement does not reflect transactions relating to the group's participation in Syndicate 2488.

Technical Account

The General Insurance Business Technical Account discloses the group's participation in Syndicate 2488. The Non-Technical Account represents the direct, non-underwriting transactions of the group.

The underwriting activities of the group are accounted for on a funded basis as, in the opinion of the directors, this method most closely follows the three year accounting policy prescribed for syndicates by the Corporation of Lloyd's. Under the funded basis of accounting, premiums, claims and expenses are carried forward as a fund and any recognition of profit is deferred until the end of the third year of an underwriting account. Losses on open years would be provided for as soon as they are anticipated.

Premiums

Gross written premiums comprise the total premiums incepted during the year including an estimate for pipeline premium and excludes insurance premium tax. No provision has been made for unearned premiums.

Claims

Claims incurred comprise claims and related expenses paid in the year.

Outstanding Claims

Provision has been made in these financial statements for the total costs of known losses not yet paid at the balance sheet date. Included in the change in the provision for claims is a charge sufficient to reduce the balance on the underwriting account to nil.

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996**1 Accounting Policies (cont.)***Turnover*

Agency fees are credited in the year in which they are due. Profit commissions due from managed syndicates are based on declared syndicate profits. Such profit commission is recognised when received, usually in the year following the closure of the underwriting year to which the commission relates.

Goodwill

Goodwill represents the excess of purchase consideration for subsidiaries acquired over the attributable net asset values at the date of acquisition. Goodwill is written off to the profit and loss account on a basis determined by the directors in accordance with Statement of Standard Accounting Practice No. 22.

Foreign Currency Translation

Underwriting transactions in U.S. and Canadian Dollars have been converted at year end rates as follows :-

	US\$	Can \$
31st December 1995	1.55	2.12
31st December 1996	1.71	2.35

Non-underwriting transactions in U.S. Dollars have been converted at the rate ruling on the date of the transaction. Year end balances, with the exception of share capital and share premium, have been converted at the year end exchange rate. U.S Dollar amounts in respect of issued share capital and share premium have been converted at the exchange rate ruling on the date of allocation.

Unrealised exchange differences have been debited or credited to an exchange revaluation reserve. There were no realised exchange gains or losses in the period.

Investment Valuations

Listed investments are included in the balance sheet at their mid-market value.

Investment Return

Investment income includes dividends and interest. Dividends are recorded on the date on which the dividends are declared and include the imputed tax credits. Interest receivable is treated on an accruals basis. Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price or, if previously valued, the valuation at the last balance sheet date. Unrealised gains and losses which represent the movement in accumulated unrealised gains and losses are taken to the profit and loss account. The amount shown in the non-technical account as "Investment Income - syndicate participation" is the total return accruing to Syndicate 2488 for the relevant calendar year. The remaining investment income and realised and unrealised gains and losses shown in the non-technical account is generated by investments held directly by the company.

Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less residual value, of each assets over its expected useful life as follows:-

Office Refurbishment	Straight line	20.0%
Computer Equipment	Straight line	25.0%
Electrical Equipment	Straight line	20.0%
Fixtures and Fittings	Straight line	12.5%
Motor Vehicles	Reducing balance	25.0%

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

1 Accounting Policies (cont.)

Operating Leases

Rentals payable under operating leases are charged on a straight line basis over the term of the lease.

Deferred Taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounts and taxation purposes which are expected to reverse in the future, calculated at rates at which it is estimated that tax will arise.

Pension Costs

The company operates both defined benefit and defined contribution schemes. For the defined contribution scheme, the pension costs charged to the profit and loss account represents the contributions payable for the period.

The defined benefit scheme costs are accounted for on the basis of charging the expected costs of providing pensions over the remaining estimated service life of the employees.

The effects of variations from regular costs are spread over the expected average remaining service lives of members of the scheme.

Investments in Subsidiaries

Investments in subsidiaries are stated at the lower of cost and net realisable value.

Company Profit and Loss Account

The profit and loss account has been omitted under the provisions of Section 230 of the Companies Act. The company's after tax profit for the year was £5,409,459 (1995: loss of £251,966).

2 Reinsurance to Close Received

The 1995 Account of Syndicate 2488 has been credited with its share of the Reinsurance to Close the 1994 Account of Syndicate 488. The breakdown of this premium is as follows:

	£
Gross notified outstanding claims	12,110,039
Reinsurance recoveries anticipated	(2,259,675)
Net notified outstanding claims	9,850,364
Provision for gross claims incurred but not reported	25,881,681
Reinsurance recoveries anticipated	(4,553,009)
Provision for net claims incurred but not reported	21,328,672
Claims settlement costs	906,595
	£ 32,085,631

3 Investment income - group

	1996 £	1995 £
Income from other investments - listed	708,850	0
- other	2,699,096	3,295,164
	£ 3,407,946	£ 3,295,164

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

4 Other Income

	1996 £	1995 £
Fees and commissions from managed syndicates	20,144,703	10,321,518
Fees for the provision of run-off services	1,007,189	789,753
Other income	53,682	65,868
	<u>£ 21,205,574</u>	<u>£ 11,177,139</u>

5 Interest Payable

	1996 £	1995 £
On loans wholly repayable within 5 years	666,528	65,333
On loans wholly repayable in more than 5 years	2,673,895	3,206,123
Other interest payable	222	1,909
	<u>£ 3,340,645</u>	<u>£ 3,273,365</u>

6 Other Operating Costs

Other Operating Costs include the following :-

	1996 £	1995 £
Staff costs	4,212,968	3,033,196
Contribution to Lloyd's Reconstruction and Renewal Plan	4,474,929	0
Auditors' remuneration - audit	19,707	29,594
- other services	46,960	15,500
Operating lease rentals	178,486	199,086
(Profit)/Loss on sale of fixed assets	(2,890)	17,861
Depreciation	301,830	197,936
Amortization of goodwill	1,493,259	1,493,259

A group company is committed to make payments totalling £123,558 in 1997 under an operating lease which is determinable at that company's discretion in 2002.

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

7 Staff Costs

The company has no employees other than the directors. The following amounts have been paid by another group company:

	1996 £	1995 £
Wages and salaries	3,820,789	2,835,590
Social security costs	371,117	277,049
Other pension costs	275,147	298,838
	<u>4,467,053</u>	<u>3,411,477</u>
less: recovered from syndicates	<u>(254,085)</u>	<u>(378,281)</u>
	<u>£ 4,212,968</u>	<u>£ 3,033,196</u>

	<i>Group</i> 1996 <i>number</i>	<i>Company</i> 1996 <i>number</i>	<i>Group</i> 1995 <i>number</i>	<i>Company</i> 1995 <i>number</i>
The average number of employees (including directors) during the year was.	<u>35</u>	<u>7</u>	<u>37</u>	<u>6</u>

8 Directors' Remuneration

The company paid fees or salaries to the directors during the period. The following amounts were paid by a subsidiary company:

	1996 £	1995 £
Emoluments (including pension contributions)	1,913,217	1,328,968
less: recovered from syndicates	<u>(50,883)</u>	<u>(93,342)</u>
	<u>£ 1,862,334</u>	<u>£ 1,235,626</u>

Directors' emoluments, excluding pension contributions, fell within the following ranges:

	<i>number</i> 1996	<i>number</i> 1995
£nil - £5,000	5	4
£130,001 - £135,000	-	1
£230,001 - £235,000	1	-
£1,070,001 - £1,075,000	-	1
£1,545,001 - £1,550,000	1	-

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

8 Directors' Remuneration (cont.)

	1996 £	1995 £
The emoluments of the Chief Executive Officer and the highest paid director, excluding pension contributions were:	<u>£ 1,549,039</u>	<u>£ 1,071,257</u>

J.R.Charman, who is a director of the company, and R.D.H. Brindle and D.G. Penney, who are directors of subsidiary companies, participate on syndicates managed by Charman Underwriting Agencies Limited.

9 Taxation on Profit on Ordinary Activities

	1996 £	1995 £ <i>Restated</i>
Based on the profit for the year :		
Corporation tax at 33%	1,739,035	3,030,633
Deferred taxation	<u>(45,816)</u>	<u>184,997</u>
	1,693,219	3,215,630
Corporation tax over provided in previous years	<u>(442,150)</u>	<u>(97,402)</u>
	<u>£ 1,251,069</u>	<u>£ 3,118,228</u>

The effective tax rate in 1995 was higher than the rate in 1996 due to the different treatment of certain payments of interest. See note twenty-nine.

10 Earnings per Share

The calculation of earnings per share is based on the profit from ordinary activities after tax and the weighted average number of ordinary U.S. Dollar shares in issue.

	1996	1995 <i>Restated</i>
Profit on Ordinary Activities after Taxation	<u>£ 6,864,513</u>	<u>£ 166,663</u>
Weighted number of ordinary U.S. Dollar shares in issue	7,571,000	6,026,677

11 Intangible Asset

The intangible asset is goodwill arising from the acquisition of all of the issued share capital of Charman Group Limited in a two-stage agreement in which control of Charman Group Limited is deemed to have passed to the company on 28th November 1994. Total consideration for the purchase was £38,699,422 and the fair value of assets acquired was estimated to be £1,376,946.

	1996 £	1995 £
Value of Goodwill brought forward/acquired	35,838,217	37,331,476
Amortization for the period	<u>(1,493,259)</u>	<u>(1,493,259)</u>
	<u>£ 34,344,958</u>	<u>£ 35,838,217</u>

Goodwill is amortized over its estimated useful life of 25 years.

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

12 Tangible Fixed Assets

	<i>Leasehold Property</i>	<i>Computer Equipment</i>	<i>Fixtures & Fittings</i>	<i>Motor Vehicles</i>	<i>Total</i>
	£	£	£	£	£
Cost:					
At 1st January 1996	338,875	621,431	296,558	167,196	1,424,060
Additions	24,718	38,098	58,202	-	121,018
Disposals	-	-	-	(28,817)	(28,817)
At 31st December 1996	<u>£ 363,593</u>	<u>£ 659,529</u>	<u>£ 354,760</u>	<u>£ 138,379</u>	<u>£ 1,516,261</u>
Depreciation :					
At 1st January 1996	22,909	228,295	11,055	58,032	320,291
Charge for the year	71,307	158,198	47,335	24,990	301,830
Disposals	-	-	-	(14,107)	(14,107)
At 31st December 1996	<u>£ 94,216</u>	<u>£ 386,493</u>	<u>£ 58,390</u>	<u>£ 68,915</u>	<u>£ 608,014</u>
Net Book Value at 31st December 1996	<u>£ 269,377</u>	<u>£ 273,036</u>	<u>£ 296,370</u>	<u>£ 69,464</u>	<u>£ 908,247</u>
Net Book Value at 31st December 1995	<u>£ 315,966</u>	<u>£ 393,136</u>	<u>£ 285,503</u>	<u>£ 109,164</u>	<u>£ 1,103,769</u>

13 Funds at Lloyds

	1996 US\$	1996 £	1995 US\$	1995 £
Cash deposits - Sterling	0	8,906	0	0
- U.S. Dollars	53,349,444	31,198,505	67,252,000	43,388,387
Listed investments - Sterling	0	9,667,850	0	0
- U.S.Dollars	23,185,965	13,559,044	0	0
		<u>£ 54,434,305</u>		<u>£ 43,388,387</u>

14 Financial Investments

	1996 Cost £	1996 Market Value £	1995 Cost £	1995 Market Value £
Debt securities and other fixed interest securities	46,386,583	46,547,949	0	0
Other investments	3	3	3	3
	<u>£ 46,386,586</u>	<u>£ 46,547,952</u>	<u>£ 3</u>	<u>£ 3</u>

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

15 Purchases of syndicate capacity

A group company purchased participation rights in the Lloyd's capacity auctions during the period. The capacity was all in respect of Syndicate 488 and was subsequently cancelled and transferred to Syndicate 2488. The cost of these purchases will be written off against future underwriting income.

16 Investment in Subsidiaries

	1996 £	1995 £
Cost of investment	<u>£ 81,535,091</u>	<u>£ 81,535,091</u>

The company has the following subsidiaries, all of which are incorporated in the U.K. and registered in England and Wales.

Subsidiary	Principal Activity	Proportion of ordinary shares held	
		by the company	by subsidiaries of the company
Charman Underwriting Agencies Limited	Underwriting Agent		100%
Charman Group Limited	Holding Company	100%	
Tarquin Underwriters Limited	Corporate Member	100%	
Charman Trustees Limited	Dormant		100%

17 Other Debtors

	Group 1996 £	Company 1996 £	Group 1995 £ <i>Restated</i>	Company 1995 £
Due within one year:				
Amounts due from managed syndicates	0	0	114,712	0
Amounts due from subsidiary undertakings	0	1,481,576	0	0
Other debtors	1,110,416	7,081	99,758	0
Advanced corporation tax recoverable	2,302,404	737,477	1,068,733	737,477
Other taxation	2,571,717	1,226,069	64,875	0
Called up share capital not yet paid	0	0	709,677	709,677
Deferred taxation	24,697	24,697	24,697	24,697
	<u>£ 6,009,234</u>	<u>£ 3,476,900</u>	<u>£ 2,082,452</u>	<u>£ 1,471,851</u>
	Group 1996 £	Company 1996 £	Group 1995 £	Company 1995 £
Due in more than one year:				
Income tax recoverable	<u>£ 56,534</u>	<u>£ 0</u>	<u>£ 0</u>	<u>£ 0</u>

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

18 Cash at Bank and in Hand

	<i>Group</i> 1996 £	<i>Company</i> 1996 £	<i>Group</i> 1995 £ <i>Restated</i>	<i>Company</i> 1995 £
Cash - syndicate	12,647,575	0	26,588,528	0
- corporate	4,781,305	73,798	3,757,098	245,341
	<u>£ 17,428,880</u>	<u>£ 73,798</u>	<u>£ 30,345,626</u>	<u>£ 245,341</u>

19 Overseas Deposits

	1996 £	1995 £ <i>Restated</i>
Joint Asset Trust Funds	941,152	539,809
Additional Securities Limited	2,574,567	5,315,880
Kentucky Trust Fund	52,364	0
Kentucky Sub-Account	36,634	0
	<u>£ 3,604,717</u>	<u>£ 5,855,689</u>

The Joint Asset Trust Funds are calculated by reference to Syndicate 2488's US dollar reinsurance and surplus lines premium income and are required to enable the company to write certain reinsurance and surplus lines business in the USA.

Syndicate 2488 is required to lodge a deposit with Additional Securities Limited in order to comply with the statutory requirements of a number of overseas countries. The Kentucky sub-account relates to funds collected and held in the Lloyd's American Trust Fund against 1993 to 1995 Kentucky liabilities.

20 Prepayments and Accrued Income

	<i>Group</i> 1996 £	<i>Company</i> 1996 £	<i>Group</i> 1995 £ <i>Restated</i>	<i>Company</i> 1995 £
Prepayments	132,308	0	102,913	1,926
Accrued income	787,798	0	380,459	1,712
	<u>£ 920,106</u>	<u>£ 0</u>	<u>£ 483,372</u>	<u>£ 3,638</u>

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

21 Share Capital

	1996 number	1996 U.S.\$	1996 £
<i>Authorised Equity Shares</i>			
U.S.\$1.00 "A" ordinary shares	2,658,800	2,658,800	0
U.S.\$0.01 "A" ordinary shares	572,162	5,722	0
U.S.\$1.00 "B" ordinary shares	712,788	710,000	0
U.S.\$1.00 "C" ordinary shares	4,229,988	4,202,200	0
<i>Authorised Non-Equity Shares</i>			
£1 deferred shares	50,000	0	50,000
		\$ 7,576,722	£ 50,000
	1996 number	1996 U.S.\$	1996 £
<i>Allotted Equity Shares</i>			
U.S.\$1.00 "A" ordinary shares	2,658,800	2,658,800	0
U.S.\$1.00 "B" ordinary shares	710,000	710,000	0
U.S.\$1.00 "C" ordinary shares	4,202,200	4,202,200	0
<i>Allotted Non-Equity Shares</i>			
£1 deferred shares	50,000	0	50,000
		\$ 7,571,000	£ 50,000
	1996 number	1996 U.S.\$	1996 £
<i>Called up and Fully Paid Equity Shares</i>			
U.S.\$1.00 "A" ordinary shares	2,658,800	2,658,800	1,712,753
U.S.\$1.00 "B" ordinary shares	710,000	710,000	453,904
U.S.\$1.00 "C" ordinary shares	4,202,200	4,202,200	2,677,925
		\$ 7,571,000	£ 4,844,582
	1996 number		1996 £
<i>Called up and Fully Paid Non-Equity Shares</i>			
£1 deferred shares	10,570		10,570
			£ 10,570

The following rights are attached to the different classes of shares comprising the capital of the company.

i) £1 Deferred Shares

The holders of the deferred shares shall not, by virtue of their holdings of such shares, have the right to receive notice of any general meeting of the company nor the right to attend, speak or vote at any such general meeting. The deferred shares shall not entitle their holders to receive any dividend or other distribution. The deferred shares shall on the return of assets on a winding up entitle the holder only to the repayment of the amounts paid upon such shares after repayment of the capital paid up on ordinary shares plus the payment of £10,000,000 per such ordinary share.

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

21 Share Capital (cont.)

ii) U.S. \$1 Ordinary Shares

The holders of U.S. \$1 ordinary shares shall rank *pari passu* in respect of voting rights, dividends distributed and division of assets on a winding up.

The holders of "C" ordinary shares shall be entitled to appoint and remove up to three directors of the company, the holders of "A" ordinary shares up to two directors of the company and the holders of "B" ordinary shares one director depending on the relevant proportions of total issued equity which each class of shares represent.

22 Share Premium

Share premium is calculated as follows at U.S. \$9 per fully paid ordinary share :-

	1996 <i>issued number</i>	1996 <i>share premium</i> U.S.\$	1996 <i>share premium</i> £
U.S.\$1.00 "A" ordinary shares	2,658,800	23,929,200	15,414,774
U.S.\$1.00 "B" ordinary shares	710,000	6,390,000	4,085,139
U.S.\$1.00 "C" ordinary shares	4,202,200	37,819,800	24,101,329
			<u>£ 43,601,242</u>

23 Profit and Loss Account

	<i>Group</i> 1996 £	<i>Company</i> 1996 £
At 1st January (restated)	166,663	(251,966)
Arising from the activities of the period	<u>6,864,513</u>	<u>5,409,459</u>
At 31st December	<u>£ 7,031,176</u>	<u>£ 5,157,493</u>

24 Reconciliation of Movements in Shareholders Funds

	1996 <i>Share Capital</i> £	1996 <i>Profit and Loss</i> <i>Account</i> £	1996 <i>Other</i> <i>Reserves</i> £	1996 <i>Shareholders</i> <i>Funds</i> £
At 1st January (restated)	48,456,394	166,663	393,063	49,016,120
Net profit after tax for the year	0	6,864,513	0	6,864,513
Movement on currency revaluation reserve	0	0	(652,082)	(652,082)
At 31st December	<u>£ 48,456,394</u>	<u>£ 7,031,176</u>	<u>(£ 259,019)</u>	<u>£ 55,228,551</u>

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

25 Other Creditors

	<i>Group</i> 1996 £	<i>Company</i> 1996 £	<i>Group</i> 1995 £ <i>Restated</i>	<i>Company</i> 1995 £
Due within one year:				
Loan (i)	1,797,661	1,797,661	991,613	991,613
Corporation tax	3,639,342	0	3,030,633	0
Advanced corporation tax due	1,262,500	0	737,477	737,477
Social security	51,541	0	50,128	0
Accruals and deferred income	875,968	0	2,085,495	1,248,840
Amounts due to subsidiary undertakings	0	0	0	660,609
Amounts due to managed syndicates	3,393,409	0	2,755	0
Deferred taxation	180,864	0	226,680	0
Other creditors	286,792	178,769	2,472,243	0
	<u>£ 11,488,077</u>	<u>£ 1,976,430</u>	<u>£ 9,597,024</u>	<u>£ 3,638,539</u>
	<i>Group</i> 1996 £	<i>Company</i> 1996 £	<i>Group</i> 1995 £ <i>Restated</i>	<i>Company</i> 1995 £
Due after one year:				
Within two years				
Accruals and deferred income	201,107	0	82,549	0
Within three to five years - loan (i)	6,291,813	6,291,813	8,924,516	8,924,516
More than five years - loan (ii)	20,568,420	20,568,421	22,691,613	22,691,613
	<u>£ 27,061,340</u>	<u>£ 26,860,234</u>	<u>£ 31,698,678</u>	<u>£ 31,616,129</u>

(i) Loan - Bank of Boston

The Bank of Boston advanced U.S.\$15,370,000 to the company on 27th November 1995. Interest on the loan is payable at a rate of 1 1/2% per annum above U.S. Dollar London interbank market rates at one, three or six-monthly intervals. The loan is repayable in instalments of between 10% and 30% of the amount advanced with the last instalment being repayable on the earlier of seven days after the release to Charman Underwriting Agencies Limited of profit commission in respect of the 1997 underwriting year of account or 30th June 2000.

(ii) Related Party Loan - Aeneas Venture Corporation

A loan of U.S.\$35,172,000 was advanced to the company by Aeneas Venture Corporation, a company whose sole shareholder is the President and Fellows of Harvard University, on 30th November 1994. Interest payable on the loan is calculated by two methods; a base rate of 13% per annum is payable annually in arrears; an additional rate of up to 12% may become payable upon an initial public offering of shares in the company or on the occurrence of other events. The additional rate payable will be determined by the internal rate of return which accrues to "B" and "C" US\$1 ordinary shares upon such an offering. The loan is repayable on the earlier of the date of an initial public offering of shares, a sale of more than 50% of the initial issued shares in the company to an unconnected third party or parties, the seventh anniversary of the advancement of the loan or such later date, not exceeding 36 months from the date of such seventh anniversary as Aeneas may determine. If however, a public offering or a sale of shares occurs after the seventh anniversary but before the end of the extension period, the loan becomes repayable in full.

The President and Fellows of Harvard University is also the sole shareholder of Phemus Corporation which holds all of the U.S.\$1 "B" ordinary shares in the company.

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

26 Segmental Analysis

	Gross Premiums Written		Gross Claims Incurred	
	1996	1995	1996	1995
	£	£	£	£
Direct Business				
Accident and health	24,157	46,343	(12,483)	(9,777)
Marine, aviation and transport	44,062,107	54,735,948	(57,297,527)	(55,211,024)
Fire and other damage to property	10,780,987	9,714,656	(906,132)	(761,030)
Third party liability	8,515,105	13,165,450	(1,366,785)	(1,735,116)
Other	7,839,761	7,660,336	0	0
	<u>71,222,117</u>	<u>85,322,733</u>	<u>(59,582,927)</u>	<u>(57,716,947)</u>
Reinsurance Business				
Reinsurance acceptances	55,036,405	81,015,371	(42,668,997)	(43,324,339)
Reinsurance to close	32,085,631	0	(37,991,812)	0
	<u>£ 158,344,153</u>	<u>£ 166,338,104</u>	<u>(£ 140,243,736)</u>	<u>(£ 101,041,286)</u>

All gross written premiums are written in the United Kingdom.

	Gross Operating Expenses		Reinsurance Balance	
	1996	1995	1996	1995
	£	£	£	£
Direct Business				
Accident and health	(3,984)	(9,308)	592	(10,408)
Marine, aviation and transport	(7,267,407)	(10,993,714)	1,619,456	(10,121,939)
Fire and other damage to property	(1,778,168)	(1,951,189)	(1,050,733)	(2,155,462)
Third party liability	(1,404,444)	(2,644,281)	(28,785)	(3,090,382)
Other	(1,293,055)	(1,538,579)	(897,127)	(1,764,887)
	<u>(11,747,058)</u>	<u>(17,137,071)</u>	<u>(356,597)</u>	<u>(17,143,078)</u>
Reinsurance Business				
Reinsurance acceptances	(9,077,457)	(16,271,937)	1,026,999	(18,569,597)
Reinsurance to close	0	0	6,812,684	0
	<u>(£ 20,824,515)</u>	<u>(£ 33,409,008)</u>	<u>£ 7,483,086</u>	<u>(£ 35,712,675)</u>

27 Net Provision for Deferred Taxation

	Group 1996 £	Company 1996 £
At 1st January	(201,983)	24,697
Calculated on difference between capital allowances and depreciation	<u>45,816</u>	<u>0</u>
At 31st December	<u>(£ 156,167)</u>	<u>£ 24,697</u>

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996**28 Revenue Commitments**

Amounts contracted for but not provided in these accounts amount to £nil (1995:£nil).

29 Contingent Liability

As detailed in note nine, the tax charge for the year has been calculated on profits after the deduction of interest which is the subject of an ongoing dispute with the Inland Revenue. The interest in question amounts to £2,673,895 for the year under review (1995: £3,206,123) and therefore an additional corporation tax charge of £882,385 (1995:£1,058,021) may arise.

30 Reconciliation of operating profit to net cash flow from operating activities

	1996 £	1995 £
Operating profit	6,857,994	1,787,641
Depreciation	301,831	197,936
Loss on disposal of fixed assets	(2,890)	17,861
Amortization of goodwill	1,493,259	1,493,259
Decrease in debtors	2,567,378	100,137
Increase in creditors	(1,436,086)	1,440,986
Net cash inflow from operating activities	£ 9,781,486	£ 5,037,820

31 Analysis of the net cash outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings

	1996 £	1995 £
Cash consideration	0	14,872,318
Cash at bank and in hand acquired	0	(1,325,573)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	£ 0	£ 13,546,745

32 Analysis of cash and cash equivalents as shown in the balance sheet

	1996 £	Movement £	1995 £
Held as part of Funds at Lloyd's	31,207,410	(12,180,977)	43,388,387
Corporate	4,781,305	1,024,207	3,757,098
	£ 35,988,715	(£ 11,156,770)	£ 47,145,485

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996**33 Analysis of changes in financing during the year****Loans**

	£
At 1st January 1996	32,607,742
Cash outflow from financing	(1,797,000)
Exchange difference	(2,153,848)
	<u>£ 28,656,894</u>

34 Purchase of subsidiary undertakings

	1996 £	1995 £
Net assets acquired :		
Tangible fixed assets	0	466,835
Investments	0	6
Cash at bank and in hand	0	1,325,573
Debtors	0	1,495,679
Creditors	0	(1,903,161)
Deferred tax	0	(16,986)
	<u>0</u>	<u>1,367,946</u>
Goodwill	<u>0</u>	<u>37,331,476</u>
	<u>£ 0</u>	<u>£ 38,699,422</u>

	1996 £	1995 £
Purchase of subsidiary undertaking satisfied by :		
Cash	0	14,872,318
Costs of acquisition	0	6,689,009
Shares allotted	0	17,138,095
	<u>£ 0</u>	<u>£ 38,699,422</u>

35 Analysis of change in cash and cash equivalents during the year

	1996 £	1995 £
At 1st January 1996	47,145,484	0
Net cash outflow	(11,156,769)	47,145,484
	<u>£ 35,988,715</u>	<u>£ 47,145,484</u>
Balance at 31st December 1996		
Total cash analysed as :		
Held as part of Funds at Lloyd's	31,207,410	43,388,387
Corporate	4,781,305	3,757,098
	<u>£ 35,988,715</u>	<u>£ 47,145,485</u>

NOTES TO THE ACCOUNTS AT 31ST DECEMBER 1996

36 Pension Commitments

The group operates a defined contribution scheme covering the majority of its employees. The assets of the scheme are held separately from those of the group in an independently administered fund. In addition, the group also operates a defined benefit scheme. During 1995 an actuarial review of this fund, using the attained age method and main assumptions of an annual interest rate of 8.5% and salary increases of 7%, showed it to be adequately funded. The market value of the fund's assets at 1st January 1995 was £1,835,780.

37 Post Balance Sheet Event

A group company has made an offer to purchase the participation rights from the current capital providers of Syndicate 488. The total cost of the offer, if it is fully taken up, will be £13,014,774 plus the legal and other professional costs associated with making the offer. As at the date of these financial statements the offer is still open.