OCKHAM

Another good year

• Group profit after tax	£5.1 million	(1996: £4.1 million)
• Earnings per share	10.1p	(1996: 8.1p)
• Full year dividend	4.5p	(1996: 4.0p)

- Market capitalisation up nearly 60% from 1st January 1997 to over £60 million.

Simplified structure

- Motor insurance subsidiaries now 97.5% owned by Ockham;
- Substantial increase in Ockham's participation on Highway motor syndicate;
- Accounting now as an insurance group.

Group operating results

- **Wise Speke**
  Sparkling results from investment management: profits from core business (before tax, discontinued and exceptional items): £2.4 million. (1996: £1.5 million).

- **Highway**
  Profit commission for 1994 underwriting year: £2.3 million. (Prior year: £2.8 million). Underwriting cycle beginning to turn up after several difficult years.

- **Alder Life**
  Modest progress, with 68% of capacity now provided by RGA.

Aims for 1998

- Retain focus on existing businesses;
- Grow shareholder value by increasing participation on Highway.

OCKHAM HOLDINGS PLC

REPORT AND ACCOUNTS 1997

Contents

Financial Calendar

Annual General Meeting	*Wednesday 6th May 1998*
Payment of final dividend	*Thursday 11th June 1998*
Interim results announcement for the six months to 30th June 1998	*September 1998*
Payment of interim dividend	*November 1998*

Chairman's Statement

Allen L. Thomas

I am pleased to report that 1997 was another good year for your Company.

Key points include:

- profits before tax: £7.8 million (1996: £9.1 million, inflated by Equitas releases);
- profits after tax: £5.1 million (1996: £4.1 million);
- earnings per share: 10.1p (1996: 8.1p);
- proposed final dividend: 3p, making 4.5p for the full year (1996: 4.0p).

The proposed 12.5% full year dividend increase reflects your Board's commitment to a progressive dividend policy.

A simpler structure

During the year we simplified the structure of the Group. Ockham increased its participation in our motor syndicate, Highway, and now has virtually full ownership of its motor insurance subsidiaries. As a result, in 1998 Ockham is providing £105 million out of Highway's total capacity of £225 million (1997: £44 million out of £218 million but, for 11 months to 1st December 1997 through a company owned only 55.5% by Ockham).. To reflect this welcome development, Ockham's accounts have been prepared for the first time this year in accordance with generally accepted accounting principles for an insurance group, on a three year fully-funded basis. This is a move that will be further developed next year. We have also taken the opportunity to write off against reserves the accounting goodwill generated by the structural transactions completed in 1997, which notionally reduces shareholders' funds.

Shareholder value

In 1997 Ockham has again delivered an increase in shareholder value, building on the previous year's radical transformation. The market reaction has been a re-rating of Ockham with our market capitalisation now up nearly 60% since 1st January 1997, to over £60 million at the time of writing. We are pleased to welcome several new major institutional shareholders.

Operating results

Wise Speke

1997 was a sparkling year for Wise Speke which produced excellent results for the Group with profits before tax, exceptional items and discontinued activities of £2.4 million (1996: £1.5 million). A special bonus arrangement has been put in place, based upon the delivery of increased return on operating cost. A long term incentive plan for management was also established on 1st January 1998. We are confident that, by aligning employee interests with those of Ockham shareholders, we will stimulate further improvements.

Chairman's Statement
continued

Highway
Profit commission on the 1994 year of account totalled £2.3 million (prior year: £2.8 million).

For the first 11 months of 1997, Ockham's ownership of its motor insurance subsidiaries (which provided £44 million of capacity to Highway's underwriting for the 1997 year of account) was diluted by a 44.5% minority interest held 42% by a group of US investors and 2.5% by Botts & Co. Ockham acquired the US investors' stake on 1st December 1997.

It is too early to predict the outcome of Highway's 1997 Lloyd's underwriting year with any confidence but the lower end of our forecast profitability range would imply a small percentage loss. We have decided that it would be prudent to reserve in full in this year's accounts for the Group's small share of this potential underwriting exposure: £679,000. However, if past development patterns repeat themselves, the final outcome for Highway's 1997 underwriting account may yet prove modestly profitable.

The underwriting cycle in the motor insurance market appears to have turned upwards towards the end of 1997 although rating remains under pressure.

Alder Life
Alder Life, the life syndicate which we manage, has continued to make progress. Our partners, Reinsurance Group of America, now provide 68% of the capacity.

Businesses sold
As intended, during the year we continued to receive income arising from the businesses sold in 1996 and prior years. Those transactions were deliberately structured in such a way as to protect the Group's earnings during the transition of our insurance business from agency to underwriter. Further significant income will arise from these sources in 1998 and 1999. The disposal of our loss-making European underwriting agency for a nominal sum was reported in our 1997 interim results.

Aims for 1998
Our strategic aim for 1998 is to focus on our continuing businesses, supporting and encouraging developments in Wise Speke and the Highway. Whilst we shall investigate other areas of specialist, non-standard insurance into which we can profitably expand, the greatest opportunity for shareholder returns lies in increasing our underwriting on the Highway. We aim to acquire any capacity offered this year (so long as this can be done on an earnings enhancing basis), so as to be able to take maximum advantage of the upturn in the underwriting cycle.

On behalf of the Board, I should like to take this opportunity to thank all those in our operating companies and in the head office who have contributed to this year's successful results.

Allen L. Thomas
Chairman
4th March 1998

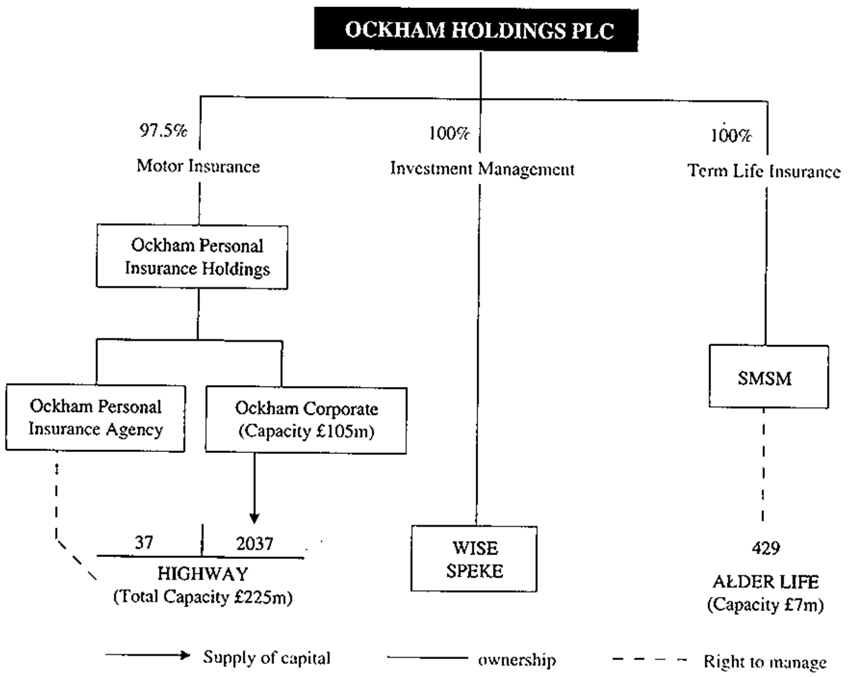
Operational and Financial Review

In 1997 we made good progress in building on the foundations which we had prepared for Ockham in the fundamental changes described in last year's accounts. As well as monitoring events at the operating level, the focus at the holding company level during 1997 was on implementing developments designed to simplify the structure of the business and to secure further underwriting participation on our motor syndicate.

Overall financial performance

During the year to 31st December 1997, the Ockham Group continued the progress recorded in 1996. Profit before tax was £7.8 million (1996: £9.1 million). The 1996 year had benefited, however, from the additional non-recurring profit commissions arising from the reinsurance of the 1992 and prior underwriting years into Equitas which inflated pre-tax profits. Profit after tax increased by 24% to £5.1 million (1996: £4.1 million). Earnings per share were 10.1p (1996: 8.1p). The directors have proposed a final dividend of 3.0p. Taken together with the interim dividend of 1.5p, the full year dividend for the year totals 4.5p per share (1996: 4.0p). This is an increase of 12.5% over 1996.

Ockham Group as at 1st January 1998 (simplified)



Operational and Financial Review
continued

Accounting presentation

To reflect the increased significance of the motor insurance business to Ockham resulting from the major transactions described in the next section, the financial statements on pages 29 to 62 have been prepared in accordance with Schedule 9A to the Companies Act 1985 which changes fundamentally the format of the accounts from that presented in the past. The profit and loss account is now split between a Technical account for the insurance underwriting activities and a Non-Technical account for the rest. Thus, Ockham's share of Highway's premiums and claims are set out in the Technical account within the Group profit and loss account and Ockham's share of the syndicate's assets and liabilities have been added to the shareholders' funds in the Group balance sheet.

The directors have reviewed the Group's accounting policies in line with the decision to account as an insurance group. For 1997, the accounts have been prepared in accordance with insurance generally accepted accounting practice (GAAP) on a three year fully-funded basis. This means that underwriting profits and profit commissions are only recognised when the syndicate's underwriting account has been finally closed, normally in Lloyd's at the end of three calendar years. Until the underwriting result is finally determined, the excess of premiums written and net investment income over claims and expenses paid is carried forward as a technical provision. An ultimate loss, is, however, provided for immediately if such is foreseeable. The directors intend to review the accounting policies again this year and to prepare the 1998 accounts on a one year earned premium basis with Ockham's share of Highway's result fully consolidated.

The underwriting figures set out in the Technical account for the 1997 calendar year comprise Ockham's share of the first accident year of the 1997 underwriting account and the second accident year of the 1996 underwriting account. These are not directly comparable with the figures shown for the 12 months ended 31st December 1996 which comprised only the first accident year of the 1996 underwriting account. Prior to 1996, Ockham did not have a direct participation in the underwriting as it acted only as managing agent.

The financial statements also reflect the Group's increased level of ownership of Ockham Personal Insurance Holdings PLC ("OPIH") that was raised from 55.5% to 97.5% during the year. (OPIH is the intermediate holding company for the companies which provide underwriting capacity and managing agency services for the Group's motor insurance Syndicates 37 and 2037, which trade together as "Highway"). The changing levels of ownership require different accounting treatments:

- Consolidation was not possible for the first 11 months of 1997 since control of OPIH was shared with Questor Partners Fund LP and others ("the US Investor Group"). Ockham therefore equity accounted for its share of the results for that period.
- Following the completion of the transaction to acquire the US Investor Group's 42% interest on 1st December 1997, Ockham's share of the results of the Highway motor business is consolidated fully within the financial statements.

The 1996 comparative figures mirror this. The US Investor Group made their investment at the end of November 1996, requiring Ockham to consolidate for 11 months and to equity account for the month of December 1996.

Operational and Financial Review
continued

Principal events and operating results

Highway - Motor insurance: Principal events

During the year Ockham continued its transition from Lloyd's managing agent to significant UK motor underwriter. The principal structural achievement in the year was the substantial increase achieved in Ockham's participation in the Highway business. This was achieved in two steps.

First, in June, some £21 million of underwriting capacity was acquired via a general offer to Names and £40 million more was bought subsequently through the Lloyd's auctions. As a result, in 1998 the Group's corporate Name, Ockham Corporate Limited ('OCL'), is providing approximately £105 million out of Highway's total capacity of £225 million. OCL commenced underwriting in 1996 when it underwrote £1 million. This was increased to £44 million in 1997 but until the second step described below was completed, OCL was only 55.5% owned by the Group.

The second step was the acquisition of the 42% stake in OPIH together with related preferred shares and loan notes from the US Investor Group.

The consideration paid by Ockham was £18.9 million of which £12.6 million was in cash and £6.3 million in Ockham loan notes. The US Investor Group also received warrants entitling them to subscribe for up to five million new ordinary shares in Ockham Holdings PLC at £1.25 per share. The US Investor Group therefore remain important stake-holders in Ockham. Full exercise of their warrants would result in an increase of £6.25 million in shareholders' funds that would largely offset in cash terms the consideration due from Ockham in the form of repayment of the loan notes. The details of this transaction were set out in a circular to shareholders dated 5th November 1997 and it was completed after being approved at an Extraordinary General Meeting of the Company on 1st December 1997.

Botts & Co retained their 2.5% stake in OPIH, which they acquired as a carried interest as advisers to Ockham at the time of the original investment by the US Investor Group.

The funding provided by Ockham to Highway via OCL is in turn supported by reinsurance arrangements with Centre-Re.

Highway is the 9th largest UK motor insurer but has the second lowest expense ratio.

Rank	Insurer	Net Earned Motor Premiums £ million	Rank	Insurer	Expense Ratio (% of Net Earned Premiums)
1	Royal & Sun	920	1	Direct Line	12.1
2	CGA	789	**2**	**Highway**	**17.6**
3	Norwich Union	590	3	ITT London	22.1
4	Eagle Star	515	4	Cornhill Insurance	22.5
5	Direct Line	488	5	Guardian	23.9
6	Guardian	376	6	Royal & Sun	24.4
7	Cornhill Insurance	237	7	Norwich Union	24.5
8	ITT London	200	8	Eagle Star	26.2
9	**Highway**	**190**	9	CGA	27.1
10	AGF Insurance	172	10	AGF Insurance	29.7

Source: DTI returns (1996) and Highway comparative data. CGA represents Commercial Union and General Accident combined.

Operational and Financial Review

continued

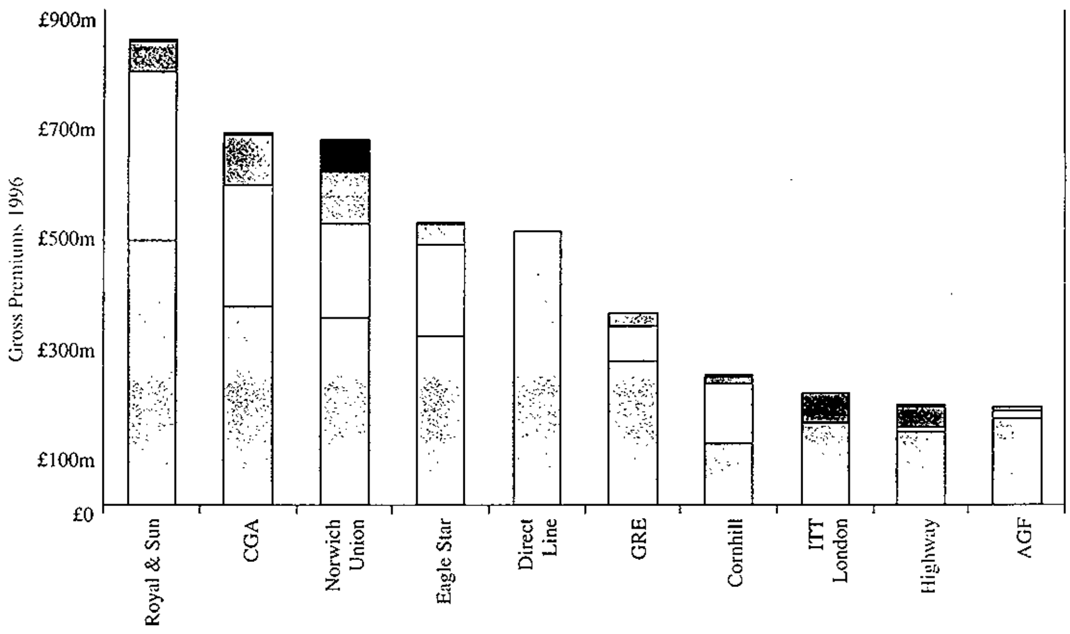
Goodwill continues to be offset against reserves. In accounting terms, the two acquisitions increased the Group's goodwill reserve by £16.7 million as follows:

OPIH spent £4.4 million in 1997 to acquire underwriting capacity on Highway for the 1998 and subsequent years of account. This equated to an average capacity purchase price of just over 7p per £1 acquired, although the last price paid was 1p per £1.

The acquisition of 42% of OPIH in December 1997 increased the goodwill reserve by £12.3 million. The calculation of the goodwill charge arising is shown in the table below:

Consideration:	**£000s**
Cash paid on 1st December 1997	12,600
Unsecured loan notes	6,300
Warrants	150
Sub-total	19,050
Costs of acquisition	839
Total consideration	19,889
Net assets acquired	(7,530)
Goodwill arising	12,359

Product profiles: Highway has largely avoided the fleet market.



Source: DTI returns (1996) and Highway comparative data. CGA represents Commercial Union and General Accident combined.

Operational and Financial Review

continued

Highway: Operating performance

Ockham's share of the motor underwriting business, Highway, contributed a profit before tax of £1.2 million in 1997 (1996 £1.6 million including Equitas effect). The key components of this were as follows.

Lloyd's 1994 and 1995 underwriting accounts

For the 1994 and 1995 Lloyd's underwriting accounts, Ockham acted only as managing agent to Highway. Under the Lloyd's three-year accounting convention, in 1997 Ockham received profit commission arising from the 1994 underwriting account that was closed during the year.

For the second year running, Highway was the top performing Lloyd's motor syndicate producing an overall profit of 12% of capacity for its Names and profit commission for Ockham of £2.3 million (1996: £2.8 million including £0.3 million non-recurring Equitas commissions). This profit commission is accounted for under "Other income from continuing operations" in the Non-Technical account.

The syndicate is forecasting a profit in the range 0 to 5% of capacity for the 1995 underwriting account. Under the current accounting policy, the profit commission from the 1995 underwriting account will be accounted for when finally determined in the 1998 calendar year.

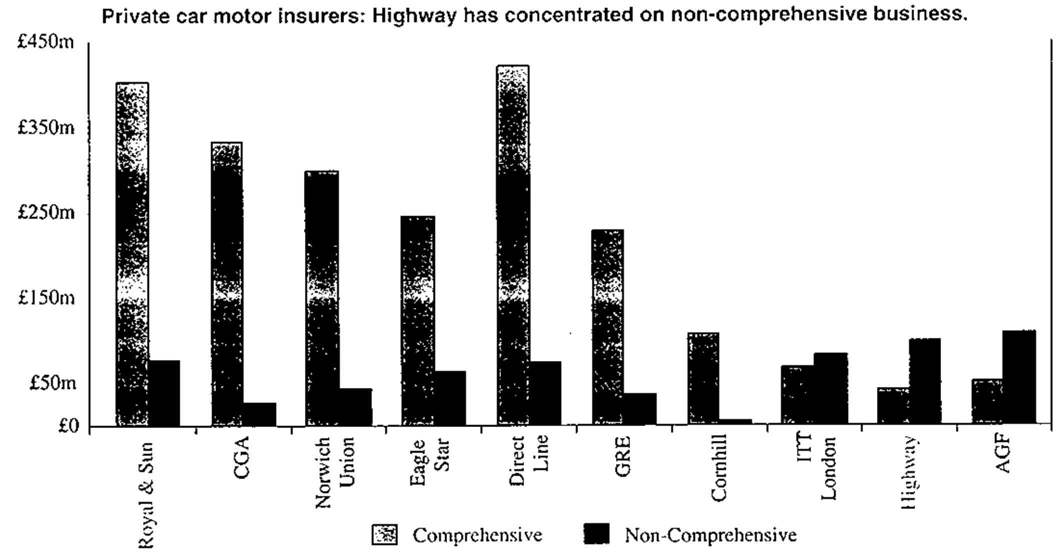
Lloyd's 1996 and 1997 underwriting accounts

In addition to the managing agency, Ockham also participated directly in the underwriting of Highway from the 1996 Lloyd's underwriting account. The motor insurance industry in the UK faced tough competition during 1996 and 1997. Premium rates fell in 1996 and the first half of 1997 as a result of over-capacity. Claims costs also continued to rise ahead of inflation throughout the period. The rise was fuelled by motor manufacturers' pricing of replacement parts and new legislation which seeks to recover state benefits and hospital costs from insurers.

The syndicate is forecasting that Highway will produce results in the range –2.5% to +2.5% for the 1996 and 1997 Lloyd's underwriting accounts. It is, however, too early to predict the final outcome with certainty.

We have decided to reserve prudently at the lower end of the forecast range. After taking into account the minority interest of the US Investor Group, a provision of £679,000 has been established. This is accounted for in the Technical account.

Private car motor insurers: Highway has concentrated on non-comprehensive business.



Source: DTI returns (1996) and Highway comparative data. CGA represents Commercial Union and General Accident combined.

Operational and Financial Review
continued

Highway: Current trading

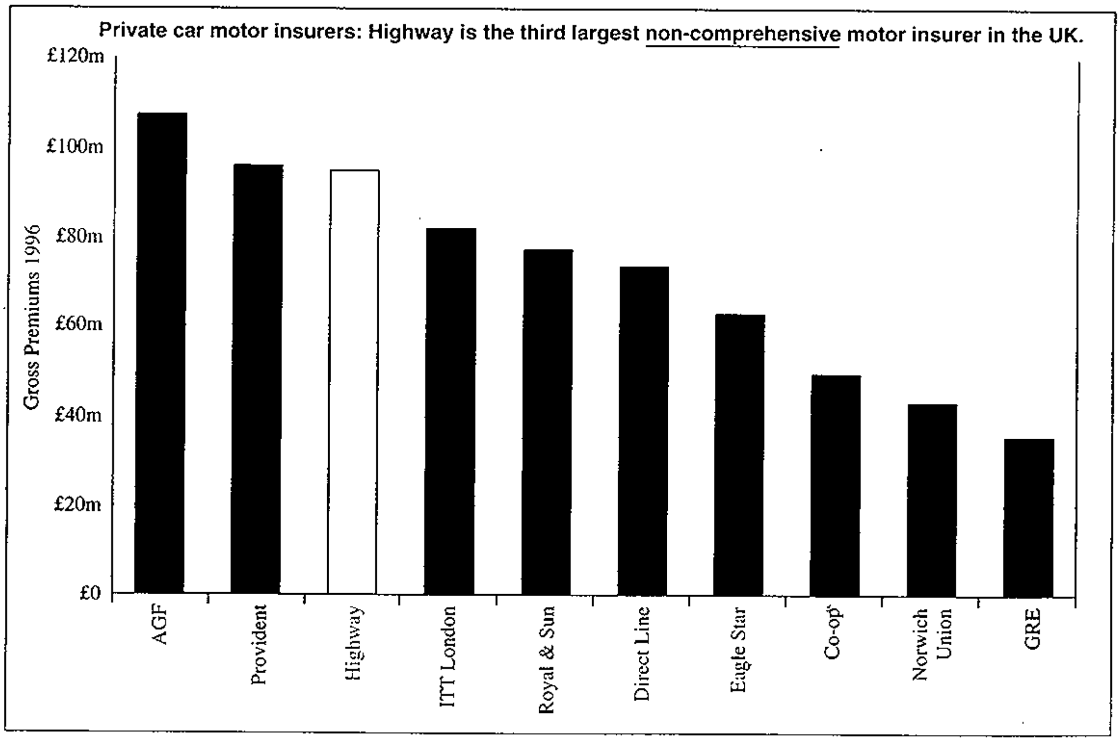
Highway is the ninth largest motor insurer in the UK in 1998, writing some 630,000 individual policies. Highway's strength lies in careful market positioning; based upon strong and symbiotic relationships with a large number of brokers. Some 80 of these brokers produce about 80% of Highway's business. On the other hand, none individually represents more than 5% of Highway's turnover, even though in some cases Highway may be providing more than 50% of the product the broker sells.

The use of sophisticated IT-based statistical analysis allows extremely detailed monitoring of Highway's business, down to the smallest meaningful segments. This permits rating decisions to be sensitively made. The syndicate emphasis is away from the heavily contested family comprehensive sector, concentrating on a diverse portfolio of both standard and non-standard specialist products.

Highway continues to trade with one of the lowest expense ratios within the personal lines market. This is an outstanding achievement by its management for a business that has to carry the additional costs of operating in the Lloyd's market. Highway's focus on cost control will be developed in 1998 by introducing new technology and changing employment patterns.

At 31st December 1997, Highway employed 630 people in eight offices in the UK, including its Head Office which is located in Brentwood, Essex. Claims costs are being contained by a focused Approved Repair Scheme, a First Response Unit which acts rapidly to direct fault claims away from solicitors and credit hire arrangements and a Technical Claims Unit which adopts a pro-active approach in settling large personal injury claims.

The managing agency for the Highway syndicate, Ockham Personal Insurance Agency Limited, recently increased its charges to Names. In 1998, the managing agency will benefit from a fee income of 1% of underwriting capacity (1997: 0.75%) and profit commission of 17.5% (1997: 15%). These increases will benefit managing agency income from 1998.



Source: DTI returns (1996) and Highway comparative data.

Operational and Financial Review
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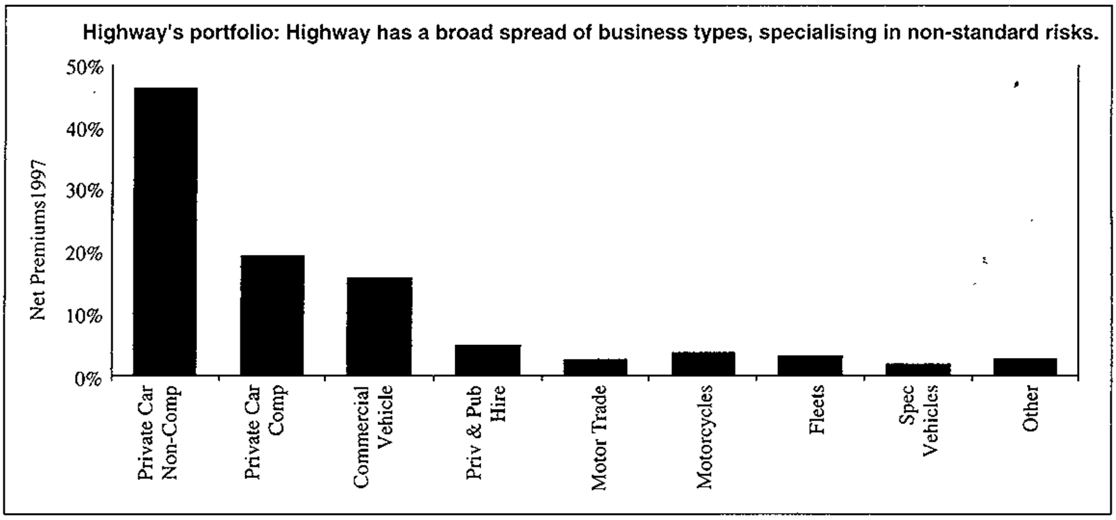


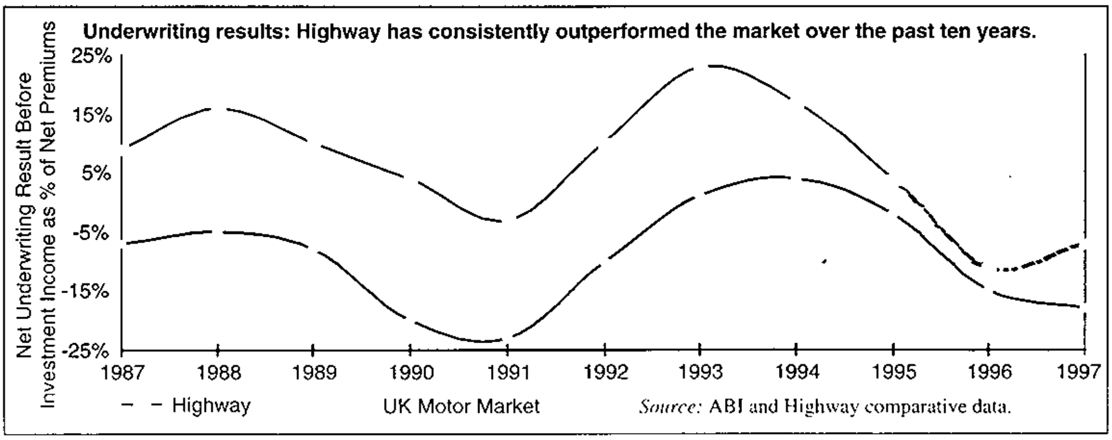
Highway: The future

We have seen evidence that the motor insurance underwriting cycle has begun to turn up and rates now appear to be hardening. Some motor insurers have left the marketplace and high profile mergers may lead the composite insurers to restructure their motor portfolios to reverse losses.

During 1997, Highway implemented a strategy of increasing premium rates by modest amounts at regular intervals to complement its tight underwriting discipline which is focused on profit and not market share. These increases were applied selectively by product throughout the year but, in December, a further rate increase was applied across all products, including both private car and commercial vehicles, of 5% on comprehensive business and 2% on non-comprehensive business.

The strategy of selective premium rate rises and tightening policy terms and conditions will be maintained in 1998 and we will be working to increase further our direct participation on Highway. We welcome Lloyd's recently published consultative document that proposes a number of changes in the rules for acquiring underwriting capacity.

Whilst we shall investigate other areas of specialist, non-standard insurance into which we can profitably expand, the greatest opportunity for shareholder returns lies in increasing our underwriting on the Highway. We aim to acquire any capacity offered this year (so long as this can be done on an earnings-enhancing basis), in order to be able to take maximum advantage of the upturn in the underwriting cycle.



Operational and Financial Review
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Wise Speke - Investment management

Our stockbroking operation, Wise Speke, had a good year, benefiting from a buoyant UK stock market in 1997 to produce profits before tax and exceptional items of £2.4 million (1996: £1.5 million before exceptional items and the discontinued Dealwise operation).

In December 1997, Wise Speke sold its remaining 15% investment in Dealwise Limited to the Skipton Building Society. Dealwise had originally been set up to provide execution-only services largely for clients of building societies (the largest being Skipton Building Society) and 85% of it had been sold to Skipton in the autumn of 1996 producing a profit of £1.53 million.

This 1997 transaction produced gross consideration of £1.3 million and an exceptional net pre-tax profit on disposal of £966,000. It resulted in an increase in the Group's net assets of £662,000. Furthermore, the unrealised profit of £332,000 arising on the initial disposal of the Dealwise division in 1996 has now been realised and transferred from other reserves to the profit and loss account.

Wise Speke: Operating performance

The investment and asset management teams increased their market share in 1997 with assets under management increasing to £2.5 billion of which £470 million is managed on a discretionary basis (1996: £2.1 billion of which £290 million discretionary).

Turnover from continuing operations increased by 16% in 1997. Commissions earned increased by 11% from 1996 with the actual number of bargains traded rising by 12% to 133,000. The recurring element of fee income also increased from 18% to 21% of income. Wise Speke turnover is accounted for under other income (continuing operations) in the Non-Technical account.

An important investment was made in the establishment of a new specialised Investment Advice Department. This has improved the company's ability to demonstrate the consistency of its advice and has also produced greater productivity from account executives with a subsequent increase in margins.

The Asset Management Division achieved a top quartile performance in 1997 following an above median return over the last four years as measured by the Combined Actuarial Performance Service.

On a comparable basis after eliminating the effects of Dealwise, expenses have increased by £1.2 million or 10%. The increase was largely in IT and staff costs which increased by £260,000 and £1.0 million respectively. On a comparable basis, the Wise Speke headcount rose by 21 during the year to 274 at 31st December 1997. This increase reflects the setting up of the Investment Advice Department, the recruitment of additional account executives and the strengthening of support services.

The Investment Advice Department's new MBA information system came on line from the middle of the year. Costs in 1997 were £250,000 including the annual software licence, information feeds, maintenance and implementation. This system provides investment managers with research, news and real time prices through sophisticated distribution software.

During the year, a special bonus arrangement was introduced to reward the delivery of increased returns on operating costs. On 1st January 1998, a new long-term incentive plan was introduced for Wise Speke management. Ockham continues to believe strongly that by aligning staff interests with those of shareholders further efficiency gains and superior performance will be delivered.

Wise Speke: Current trading and the future

The current year has begun well for Wise Speke with results ahead of budget.

Operational and Financial Review

continued

Wise Speke will maintain its strategic aim of increasing the proportion of its client funds managed on a discretionary basis in return for a fee related to portfolio value, with reduced commissions on transactions.

A plan for the conversion of core services into branded products is now under way. The new "City Account" for discretionary clients was successfully launched in mid November 1997 and had converted £131 million by year end. This has led to an increase in the total value of assets held by clients using Wise Speke's discretionary service and nominee company, bringing a useful increase in recurring fee income. We expect further progress in launching branded products this spring.

Targeted investment continues to be made in the areas of systems, marketing and staff training and development. Wise Speke will also continue to watch for the kind of opportunities to expand its business that tend to appear at a time when an industry is in a period of significant change and consolidation.

Alder Life - Term life insurance

During 1997, Syndicate 429 which trades as "Alder Life" reported a loss of 10% on capacity for the 1994 underwriting account which was closed during the year. As a result, Ockham received no profit commission but only fee income, totalling £35,000, as managing agent for the syndicate. For the 1995 and 1996 underwriting years, the syndicate is forecasting profits of between 2.5% and 7.5% of capacity. The 1997 underwriting year has started satisfactorily but it is too early to predict the eventual outcome with certainty.

The Syndicate is concentrating on its core business of individual term life and group schemes that are sold in Europe through Lloyd's brokers and in the UK through independent financial advisers, Lloyd's provincial brokers and through Lutine, a service company jointly owned by the term life insurers at Lloyd's. The core account remains inherently profitable but increased scale is essential.

A major US life reinsurance company, Reinsurance Group of America ("RGA"), began participating as a corporate Name in the 1997 underwriting year of account and during the year their participation was increased to 68% of the total. In 1998, Ockham will continue to explore ways of building on its relationship with RGA to develop the business and releasing value inherent in the right to manage.

Central costs

Overall, central costs reduced by 33% from £6.4 million in 1996 to £4.3 million in 1997. The principal components were as follows:

	1997 £000	1996 £000
Empty property and associated costs	873	1,926
Long term incentive plan provision	198	279
Professional, audit and legal fees	345	1,517
Group management costs	2,931	2,672
	4,347	6,394

The 1996 empty property and associated costs included a payment of £1.1 million in respect of the termination of an onerous lease on 11-13 Crosswall, London EC3. The 1997 Group management costs include £0.3 million of non-recurring reorganisation costs.

Operational and Financial Review
continued

Discontinued operations

In order to fund the Group through the transition from managing agent at Lloyd's to a specialist personal lines underwriter, Ockham structured the disposal of its non-core businesses in 1996 in such a way that it retained the right to an earnings stream through the transitional period. The principal businesses that are accounted for as discontinued operations are discussed below:

Aviation and non-marine managing agencies

Ockham retains the responsibility for the management of the 1994 and 1995 underwriting years of account of the aviation and non-marine syndicates that were sold in November 1996. The profit commission arising from the 1994 underwriting accounts that closed during 1997 totalled £5.5 million. The 1996 comparable figure was £20.9 million. This included the effect of the exceptional reinsurance of the 1992 and prior underwriting years into Equitas, the company established by Lloyd's for administering the old years of account. Equitas is estimated to account for approximately £16 million of the 1996 total. After underwriters' bonuses and managing agency costs, the aviation and non-marine managing agencies produced operating profits of £3.8 million (1996: £7.4 million including non-recurring Equitas effects).

Profit commission arising from the 1995 underwriting account from the aviation and non-marine syndicates will be received in 1998.

A proportion of the consideration receivable on the disposal of the aviation and non-marine syndicates was linked to the 1996 after tax profit commission generated by the aviation and non-marine syndicates. At completion of the transaction in November 1996, the aviation and non-marine underwriters were estimating this receivable to be £3 million. Ockham has now been informed that the latest forecasts for the 1996 underwriting accounts have been reduced and therefore a provision against this receivable of £500,000 has been created. This provision has been accounted for as an exceptional item in discontinued operations. The 1996 comparative relates to the accounting profit on the original disposal.

Members' agencies

The Group sold its members' agency businesses to their management at the end of 1994. As part of the transaction, Ockham retained the right to profit commissions arising on the 1994 and prior underwriting years. During the year, profit commission of £2.3 million was received (1996: £4.3 million including impact of Equitas). The majority of this income, which is accounted for under discontinued operations, arose from the 1994 underwriting year.

During the year the Group also received additional consideration of £183,000 from Falcon Agencies Limited, the company formed to undertake the management buyout of the members' agency businesses. This consideration is accounted for as an exceptional item in discontinued operations. Further deferred consideration based on a proportion of the profit commissions arising on Falcon's 1995 and 1996 underwriting years of account will be due in 1998 and 1999.

Ockham Europe

The underwriting agencies in Düsseldorf and Paris recorded a further pre-tax loss of £0.3 million during the year (1996: pre-tax loss of £0.9 million). Following the sale of the wholesale aviation and non-marine underwriting businesses in November 1996, these agencies no longer had any direct link to Ockham's core business. Accordingly, Ockham Europe was sold to management for a nominal sum with effect from 30th June 1997. The loss for the year is therefore accounted for under discontinued operations. Furthermore, the disposal created an accounting loss of £10,000 which is recorded as an exceptional item under discontinued operations.

Operational and Financial Review

continued

Net interest receivable

Net interest receivable was £1.7 million (1996: £1.6 million). Higher interest received, principally arising on the £16.5 million of loan note consideration received for the 1996 disposal of the aviation and non-marine businesses was offset by increased interest payable to service the bank facilities and loan note obligations following the buy-out of the US Investor Group's minority interest in the Group's motor insurance business.

Group taxation

Taxation on the Group's profits for the year was £2.6 million (1996: £5.0 million). The charge represents an effective tax rate of 34% (1996: 55%) which is slightly higher than the statutory rate of 31.5% (1996: 33%). The difference is largely due to expenditure on property that cannot be offset against other taxable profits. The 1996 taxation charge reflected the non-deductibility of the write-off of goodwill following the disposal of the Group's aviation and non-marine businesses.

Dividends

The directors have recommended a final dividend of 3.0p per share, bringing total ordinary dividends for the year to 4.5p per share, an increase of 12.5% over the previous year. This increase reflects the board's commitment to a progressive dividend policy. The final dividend will be payable to shareholders on the register on 15th May 1998 and will be paid on 11th June 1998.

Shareholders' funds

Shareholders' funds decreased by £11.9 million from £24.7 million to £12.8 million, after providing for the proposed final dividend of 3p per share. The net reduction is principally due to the elimination of £16.7 million of goodwill arising on the acquisition of underwriting capacity and the acquisition of the 42% minority interest in OPIH.

Cash and debt

At 31st December 1997, the Group held net corporate cash balances of £12.0 million in addition to £16.0 million of ACE loan notes, £13.5 million of which was redeemed on 2nd January 1998. Ockham's share of the Highway cash held in the syndicate trust fund was a further £8.1 million.

Total other debt at the end of 1997 was £22.8 million. This included bank facilities of £16.5 million and Ockham loan notes to the US Investor Group of £6.3 million. The loan notes bear interest at 2.25% over base and are redeemable at any time from 1st December 1999. £10.5 million of the bank facilities were repaid on the 2nd January 1998 following redemption of the ACE loan notes.

Ockham currently has access to further bank facilities totalling £8 million under existing arrangements.

Looking ahead

The current year has started well and we view the future with confidence.

Poole

A J Gibson

The Lord Poole
Group Chief Executive
4th March 1998

Andrew J. Gibson
Group Finance Director

Directors and Advisers

Directors

Allen Lloyd Thomas *(Chairman)*

The Lord Poole *(Chief Executive)*

Keith Norman George Bradley*

David Ean Coleridge*

Andrew James Gibson *(Finance Director)*

Anthony Everard George Hambro

Graham Norbert Kennedy CVO*

(*Non-executive)

Secretary

Michael David Conway

Registered Office

Cutler House, 3b Devonshire Square, London, EC2M 4YA

Auditors

Price Waterhouse

Southwark Towers, 32 London Bridge Street, London, SE1 9SY

Stockbrokers

Cazenove & Co

12 Tokenhouse Yard, London, EC2R 7AN

Registrars

Lloyds Bank Registrars

The Causeway, Worthing, West Sussex, BN99 6DA

Bankers

Lloyds Bank Plc

113-116 Leadenhall Street, London, EC3X 4AX

Directors' Report

The Directors are pleased to submit their report and the audited financial statements of the Company for the year to 31st December 1997.

Principal activities and business review

The Company is a holding company and provides services to its subsidiaries, which are in the main Lloyd's underwriting agencies and private client investment managers. A review of the Group's activities and its future prospects is set out in the Operational and Financial Review on pages 5 to 15.

Significant events

On 30th October 1997 the Company completed the sale of the entire issued share capital of Ockham Europe Limited together with the European business of SLA Residual Limited (formerly Sturge Lloyd's Agencies Limited).

On 1st December 1997 the Company completed the purchase of all of the issued 'B' ordinary shares of £1 each, 924,000 preferred shares of £1 each and £1,176,000 Loan Notes in Ockham Personal Insurance Holdings PLC.

On 30th December 1997 Wise Speke Group PLC sold its remaining 15 per cent interest in Dealwise Limited to the Skipton Building Society.

Group results and dividends

The profit for the year to 31st December 1997 attributable to shareholders amounted to £5,111,000 after taxation (1996: £4,103,000). An interim dividend of 1.5p per share net was paid on 11th November 1997 amounting to £762,000. The directors are recommending a final dividend of 3p per share net amounting to £1,522,000 payable on 11th June 1998 to shareholders on the register at the close of business on 15th May 1998. This will make a total dividend for the year of 4.5p per share net (1996: 4.0p per share). The retained profit for the year of £2,827,000 will be transferred to reserves.

Directors

The interests of the directors, who held office at 31st December 1997, in the share capital of the Company, are set out on page 25 in the Report of the Remuneration Committee. With the exception of awards made under the Ockham Holdings PLC Restricted Share Scheme, there have been no changes in these interests between 31st December 1997 and the date of this report.

In accordance with the Articles of Association of the Company, David Coleridge and Allen Thomas retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Chairman

- **Allen Thomas**, aged 58, is an American lawyer now working in London following his retirement as a partner of the New York law firm Paul, Weiss, Rifkind, Wharton & Garrison where he practised commercial law for 28 years. He moved to London in 1992 to become general counsel to a private investment group and is currently an executive director of Penna Holdings PLC, a non-executive director of the Dialog Corporation PLC and other companies and an international legal and business adviser.

Non-Executive Directors

- **Graham Kennedy**, aged 61, was a director of James Capel & Co. Limited until his retirement in October 1995. From 1980 to 1992 he was a member of the Council (latterly board) of the London Stock Exchange. He was Chairman of Anglo Pacific Resources Limited and of Dwyer plc until 1997, and is a director of Charities Investment Managers Limited (M&G Charifund).

Directors' Report
continued

- **Keith Bradley**, aged 53, is professor of International Management at The Open University Business School. He was previously with the London School of Economics. Professor Bradley is a director of Integra Life Sciences Corporation, USA, a member of the editorial board of Business Strategy Review and the series editor of the International Library of Management. He has been a visiting professor at the Harvard Business School, the University of Pennsylvania and UCLA, and a fellow of the Harvard Center for Business and Government.
- **David Coleridge**, aged 65, joined the Group in 1957 and was its Chairman from 1978 to 1995. He was Chairman of Lloyd's in 1991 and 1992.

Substantial interests
Other than the holding of David Coleridge, as disclosed in the Report of the Remuneration Committee on page 25, the directors have been notified pursuant to section 198 of the Companies Act 1985 of the following interests in 3% or more of the ordinary share capital of the Company:

	Number of Shares	%
Egerton Capital Limited*	8,770,199	16.47
Lloyds Bank S F Nominees Limited	4,523,465	8.50
Oppenheimer Global Fund - 825	2,700,000	5.07
M J H Maughan	2,601,350	4.89
Ockham Trust Company Limited	2,511,037	4.72

* For the purposes of section 203 of the Companies Act 1985, William G Bollinger and John C Armitage are interested in these shares. For the purposes of Sections 208 and 209 of the Companies Act 1985, Egerton European Equity Fund Limited and Egerton European Dollar Fund Limited are interested in 2,242,544 and 3,706,410 of these shares respectively.

Fixed assets
The value of the freehold property, as determined by Newton Perkins in December 1995, amounted to £1.8 million, which exceeds the net book value shown in the financial statements by £0.8 million.

Share capital
Details of the current share capital of the Company are given in note 21 to the financial statements on page 52. A resolution to extend for up to a further fifteen months the powers of the Board to issue shares for cash within certain fixed parameters will be put to shareholders at the forthcoming Annual General Meeting.

Permission was obtained from shareholders at the Annual General Meeting in April 1997 to purchase up to 10% of the Company's ordinary share capital. A resolution to grant the Board power to buy back up to 10% of the issued capital for a further year will be put to shareholders at the forthcoming Annual General Meeting.

On 18th June 1997 and 13th January 1998 the Company issued respectively 2,186,522 and 324,515 ordinary shares of 20p each to Ockham Trust Company Limited in relation to awards made under the Ockham Holdings PLC Restricted Share Scheme. Ockham Trust Company Limited has waived its right to receive any dividend (except for 0.001 pence per share) in respect of these shares.

On 1st December 1997 the Company issued 5,000,000 warrants conferring on the holders the right to subscribe in cash at any time between the second and eighth anniversaries of the date of issue of the warrants for one new ordinary share of 20p in the Company at a price of 125p. This was part of the transaction by which the Company acquired from Questor Partners Fund LP and others their minority interest in Ockham Personal Insurance Holdings PLC.

Directors' Report
continued

Creditor payment policy
It is the Group's policy to follow the CBI Prompt Payers' Code of Good Practice which states that a company should have a clear, consistent policy, adhered to by the finance department, to settle bills in accordance with the payment terms agreed with suppliers, dealing quickly with complaints and advising suppliers of disputes. The number of creditor days, based on creditors at the year end and purchases during the year, was 36 days. Copies of the CBI Code of Good Practice can be obtained from CBI, Centrepoint, 103 New Oxford Street, London SW1A 1DU.

Employment policies
The Board pursues policies designed to encourage employees to identify with the Group and to use their knowledge and skills actively towards its success. It encourages and funds appropriate training and studying for relevant professional qualifications.

The Group has three Long Term Incentive Schemes: the Ockham Holdings PLC Restricted Share Scheme, the Ockham Personal Insurance Holdings PLC Restricted Share Scheme and the Wise Speke Group PLC Restricted Share Scheme.

Full and fair consideration is given to employment applications from disabled persons who have the necessary aptitude and abilities. Where an employee becomes disabled whilst employed, arrangements are made whenever practicable to maintain employment and offer appropriate training.

Charitable and political contributions
The Group made charitable donations during the year of £8,858 (1996: £10,771). No political contributions were made during the year (1996: £25,000 to the Conservative Party).

Corporate governance
The Company complies with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance.

The appointment of directors is reserved as a matter for the Board as a whole and a formal procedure for the appointment of non-executive directors has been established. The Report by the Auditors to the Directors on corporate governance matters is set out on page 21. A statement on internal financial control is set out on page 27 as part of the Statement of Directors' Responsibilities.

Board committees
The Company operates an Audit Committee and a Remuneration Committee, both consisting solely of non-executive directors.

The Audit Committee is chaired by Graham Kennedy. It meets at least twice a year and its main terms of reference include: review of the Group's financial statements prior to publication, review of the effectiveness of the systems of financial control and monitoring the implementation of the auditors' recommendations arising from the audit.

The Remuneration Committee is chaired by Allen Thomas and meets at least twice a year. It determines employment terms and total remuneration of the executive directors, and the amount appropriated to employees through the Ockham Holdings PLC Restricted Share Scheme. The report of this Committee to shareholders in contained on pages 22 to 26.

Going concern
Having reviewed the financial and cash flow positions of the Group, the directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Directors' Report
continued

Auditors
Price Waterhouse have expressed their willingness to continue as auditors. A resolution will be proposed at the Annual General Meeting for their reappointment as auditors and authorising the directors to determine their remuneration.

Annual General Meeting
The notice convening the Annual General Meeting to be held on 6th May 1998 is given on pages 65 to 66 with an explanation of the business to be conducted at the meeting.

By order of the Board

Michael D. Conway
Secretary
4th March 1998

Report by the Auditors to the Directors of Ockham Holdings PLC on Corporate Governance

In addition to our audit of the financial statements we have reviewed your statements on page 19 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial control on page 27 and on going concern on page 19, have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, your statement on page 19 appropriately reflects the Group's compliance with the other aspects of the code specified for our review by Listing Rule 12.43(j).

Price Waterhouse

Price Waterhouse

Price Waterhouse
London
Chartered Accountants
and Registered Auditors
4th March 1998

Report of the Remuneration Committee

The Committee

The Remuneration Committee comprises the Chairman of the Board and at least two other non-executive directors. The Chairman of the Committee is appointed by the Board and is currently Allen Thomas. Graham Kennedy, David Coleridge and Keith Bradley are the other members of the Committee. The Committee meets at least twice in any year.

The Remuneration Committee acknowledges the recommendations of the Greenbury Committee on Directors' Remuneration. The Company complies with Section A and has given full consideration to Section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange.

The Committee is required to consider and decide upon the appropriate package and level of remuneration of the executive directors of the Company based on recommendations from appropriate executives. The Committee is also required to keep abreast with the remuneration for senior executives throughout the Group and to ensure proper co-ordination between the level of such senior executives' remuneration and that of the executive directors of the Company.

Remuneration policy

The Group's remuneration policy is performance led and market based, rewarding above average performance through incentives, and integrated with the budgetary process. This has been achieved by:

- an annual performance appraisal for all staff, directly linked to remuneration;
- capping basic salary at the market rate for a job, determined through salary surveys;
- rewarding above average performance through annual bonuses, profit share or profit commission (depending upon business unit);
- introducing long term performance based incentives for senior managers;
- setting, as part of the budget process, the absolute year-on-year increase in remuneration in the form of separate basic salary and merit allocations.

Basic salary and benefits

Salaries are reviewed annually in the context of individual and business performance. Comparison is made to the level of remuneration of equivalent positions in other companies through the use of relevant external salary surveys.

Variable compensation

The executive directors participate in performance related remuneration schemes.

The scheme applicable to the Chief Executive provides for a bonus to be calculated in relation to the increase in earnings per share of the Group but limited to 100% of the Chief Executive's salary in the relevant period.

The scheme applicable to insurance activities, in which Mr Gibson participated up to the Lloyd's 1995 underwriting account, covers directors, underwriters and senior staff, and is based on the distribution of a fixed percentage of the profit commission receivable by managing agencies when an underwriting year is closed. The first distributions under this scheme arose in 1996 and 1997 following the closure of the 1993 and 1994 underwriting accounts respectively. The subdivision of the amounts to be distributed is determined in advance by the executives of the relevant managing agency.

Report of the Remuneration Committee

continued

Long term incentives

On 19th December 1995, shareholders approved the adoption of the Ockham Holdings PLC Restricted Share Scheme. This scheme was designed to reward and incentivise executives for achieving improved shareholder return, thereby aligning their interests with those of shareholders. The scheme lasts for a period of five years from 1st January 1996 but, at the discretion of the Remuneration Committee, may be extended for a further two years.

Under the scheme, the Remuneration Committee may make awards in each of the first three years to executives. These awards are made subject to achievement of specific performance targets which are contained within the rules of the scheme. A full release of the awards will only be made at the end of the life of the scheme if the overall return to shareholders throughout the five year period of the scheme equals or exceeds the equivalent return made by three-quarters of the companies within a peer group in the insurance and financial services sector that has been established by the Remuneration Committee. Any lesser performance will result in only a portion of the award (or none) vesting to the individual executives.

Similar long term incentive schemes have been put in place in the Group's motor and stockbroking businesses: the Ockham Personal Insurance Holdings PLC Restricted Share Scheme and the Wise Speke Group PLC Restricted Share Scheme respectively. Whilst the level of awards which vest from these Schemes will be determined based upon the performance of the individual businesses concerned, the form of the awards will be in cash or in shares in Ockham Holdings PLC. The Ockham Personal Insurance Holdings PLC Restricted Share Scheme was established with effect from 31st December 1996, when awards equivalent to 5.5% of that company's shares were made, of which 1% can vest after four years and the other 4.5% after five years from that date. The Wise Speke Group PLC Restricted Share Scheme was established with effect from 1st January 1998 when awards equivalent to 7.04% of that company's shares were made, which can vest after five years.

Retirement benefits

The Lord Poole and Mr Hambro have personal pension arrangements to which the Company makes contributions. Contributions made by the Company during the year in respect of these arrangements amounted to £45,000 for The Lord Poole and £2,000 for Mr Hambro.

The Group operates two defined benefit pension schemes, The Ockham Pension Scheme and the Wise Speke Limited Scheme. Messrs Gibson and Macdonald participated during the year in the Ockham scheme (Mr Macdonald to retirement on 29th January 1997).

Pension benefits earned by those directors during the year (note 1) were as follows:

Name of director	Increase in accrued pension during the year (note 2) £ pa	Transfer value of increase (note 3) £	Accumulated total accrued pension at year end £ pa
A J Gibson	1,726	12,400	10.686
J W S Macdonald *(to 29th January 1997)*	361	5,970	39.361

Notes:

1. The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.
2. The increase in accrued pension during the year excludes any increase for inflation.
3. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less director's contributions.
4. Members of the schemes have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits is included in the above table.

Report of the Remuneration Committee

continued

Service contracts

Each of the executive directors has a contract which is terminable by either the Company or the director on not more than twelve months' notice. Mr Hambro entered into a service contract with the Company on 11th December 1997. Prior to that date, Mr Hambro acted as a consultant to the Company. The service contracts of The Lord Poole and Mr Hambro provide that, in the event of an acquisition under section 425 of the Companies Act 1985, they are entitled, within three months of the acquisition, to give notice and receive compensation equivalent to up to one year's remuneration.

Directors' aggregate remuneration

	1997 £000	1996 £000
Fees	117	115
Management remuneration:		
Salary	634	1,063
Performance related remuneration	107	721
Pension contributions	63	161
Long term incentive scheme payment	-	117
Compensation for loss of office	-	25
	921	2,202
Amounts recharged to managed syndicates	(40)	(151)
	881	2,051

Directors' individual remuneration

	1997					
	Basic salary and fees £000	Benefits £000	Performance related remuneration & bonus £000	Pension contributions £000	Total £000	1996 total £000
Executive:						
A L Thomas *(Chairman)*	50	-	-	-	50	50
The Lord Poole *(Chief Executive)*	239	15	56	45	355	530
A J Gibson	140	1	51*	15	207	251
A E G Hambro	236†	-	-	2	238	404
J W S Macdonald *(to 29th January 1997)*	13	-	-	2	15	301
Non-Executive:						
K N G Bradley	15	-	-	-	15	14
D E Coleridge	15	-	-	-	15	15
G N Kennedy	28	-	-	-	28	17

* Includes £18,000 in respect of participation in the distribution of profit commission from the 1994 underwriting account (1996: £74,000 1993 underwriting account).

† Includes £215,852 in respect of consulting fees (1996: £394,039).

In 1996, three other Directors, who had resigned before 1997, were paid a total of £620,000.

Report of the Remuneration Committee

continued

Share options

At 1st January 1997 and on retirement on 29th January 1997, Mr Macdonald had the following options to subscribe for ordinary 20p shares in the Company:

Number	Price
35,000	55p
65,000	72p

These options were granted under the Sturge Holdings PLC 1984 Executive Share Option Scheme and subsequently transferred to a grant of options over shares in Ockham Holdings PLC. The market price of shares in Ockham Holdings PLC on 29th January 1997 was 76p.

In December 1997, Mr Macdonald exercised the 35,000 options at 55p, and sold 16,986 of the shares received on that exercise at 98p each. The remaining 65,000 options lapsed during the year.

Payments to former directors

Performance related remuneration of £17,000 and £77,000 was paid to Mr J W S Macdonald and Mr R A Field respectively in 1997, in respect of their participation in the distribution of profit commission arising following the closure of the 1994 underwriting account of syndicates managed by the Group.

Directors' interests

The interests of the directors who held office at 31st December 1997 and their immediate families in the ordinary 20p shares of the Company at 31st December 1997, with comparative figures as at 1st January 1997, according to the register of directors' interests, were:

	Beneficial		As trustee	
	31st December 1997 Number	1st January 1997 Number	31st December 1997 Number	1st January 1997 Number
K N G Bradley	-	-	-	-
D E Coleridge	6,785,073	6,785,073	673,525	673,525
A J Gibson	-	-	-	-
A E G Hambro	-	-	-	-
G N Kennedy	10,000	10,000	-	-
The Lord Poole	1,095	-	-	-
A L Thomas	85,000	85,000	-	

The awards of ordinary 20p shares made to directors under the Ockham Holdings PLC Restricted Share Scheme are as follows:

	Awards as at 1st January 1997	Awards made on 25th March 1997	Awards as at 31st December 1997	Awards made on 2nd January 1998	Awards as at 4th March 1998
A J Gibson	244,565	184,375	428,940	121,875	550,815
A E G Hambro	326,087	312,500	638,587	94,663	733,250
The Lord Poole	584,239	224,063	808,302	175,000	983,302

The Scheme continues until 31st December 2000 unless extended for up to a further two years by the Remuneration Committee, at which time the awards may be released subject to achievement of specific targets.

Report of the Remuneration Committee
continued

During the period 1st January 1998 to 4th March 1998, with the exception of the Restricted Share Scheme there were no changes in the above interests.

The market price of the ordinary 20p shares at 31st December 1997 was 104.5p and the range during the year to that date was 69.5p to 104.5p.

During the year to 31st December 1997 and at that date, no contracts of significance subsisted in which a director of the Company was materially interested, other than as disclosed in note 33 to the financial statements.

Allen L. Thomas
Chairman

4th March 1998

Statement of Directors' Responsibilities

Financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for the financial period.

The directors consider that in preparing the financial statements on pages 29 to 62, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Internal financial control

The directors are responsible for the Group's systems of internal financial control. The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and include:

- Clear responsibilities for the production of timely financial information on a weekly, monthly and quarterly basis;
- Comprehensive budgeting systems with an annual budget approved by the Board;
- Regular consideration by the Board of actual results compared with budgets and forecasts;
- Clearly defined authorisation limits;
- Establishment of underwriting strategy and monitoring of syndicate performance;
- Regular reporting of financial, legal, organisational and compliance issues;
- Clear terms of reference for the duties of the Board and its committees; and
- A separate audit committee of Wise Speke Group PLC established to consider the results and review the internal control environment of the stockbroking business.

The directors have delegated to executive management the establishment and implementation of a system of internal controls appropriate to the various business environments in which the Group operates. Operating management prepare self assessment questionnaires which are utilised by the Ockham Holdings PLC audit committee as part of their review of the effectiveness of the system of internal financial control for the year to 31st December 1997.

Report of the Auditors

to the members of Ockham Holdings PLC

We have audited the financial statements on pages 29 to 62 (and the additional disclosures on pages 22 to 26 relating to the remuneration of the directors specified for our review by The London Stock Exchange) which have been prepared in accordance with the accounting policies set out on pages 29 to 32.

Respective responsibilities of directors and auditors

As described on page 27 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse

Price Waterhouse
London
Chartered Accountants
and Registered Auditors
4th March 1998

Accounting Policies

1 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the accounts of Ockham Holdings PLC ("the Company") and its subsidiary undertakings for the year to 31st December 1997.

From 27th November 1996, when the Group's interest in Ockham Personal Insurance Holdings PLC decreased to 55.5%, that company and its subsidiary undertakings were included in the consolidated financial statements under equity accounting principles in accordance with Financial Reporting Standard (FRS) 2. This treatment was considered appropriate in view of the rights granted to the minority shareholders. From 1st December 1997, when the Group's interest in Ockham Personal Insurance Holdings PLC increased to 97.5%, that company and its subsidiary undertakings are consolidated as subsidiary undertakings.

2 ACCOUNTING CONVENTION

The audited financial statements have been prepared in accordance with Section 255A of, and Schedule 9A to, the Companies Act 1985 ("the Act") and in accordance with applicable accounting standards.

In prior years the financial statements were prepared in accordance with Schedule 4 of the Act. On 1st December 1997 the Company completed the purchase of a 42% equity interest in Ockham Personal Insurance Holdings PLC formerly held by minority shareholders, thereby acquiring a controlling interest in that company and its subsidiary undertakings including Ockham Corporate Limited, which is a Lloyd's corporate member.

In view of the size and significance of the motor insurance operations to the Group, the directors consider it appropriate to account as an insurance group, in accordance with Section 255A of, and Schedule 9A to, the Act. As a consequence, the format of the consolidated financial statements and the accompanying accounting policies have been revised to comply with that Section of, and that Schedule to, the Act.

No profit and loss account is presented for the Company as permitted by section 230 of the Act. The balance sheet of the Company has been prepared in accordance with section 226 of, and Schedule 4 to, the Act.

3 GOODWILL ARISING ON CONSOLIDATION

Goodwill, being the cost of acquisition less the fair value of net assets acquired, is offset against reserves. On disposal of a business, the profit or loss is determined after taking into account goodwill previously offset against reserves.

4 INTANGIBLE ASSETS

The costs relating to the acquisition of syndicate capacity are offset against reserves.

5 REVENUE AND EXPENSE RECOGNITION

a. Corporate underwriting – Technical account:

(1) Underwriting results

The underwriting account for motor business has been prepared on a three year funded basis, under which the excess of premiums written and attributable net investment return over claims and expenses paid in respect of contracts incepting in an accounting period ("the underwriting year") is carried forward as a technical provision until the end of the third year from the inception of the underwriting year. Consequently no profit is recognised in respect of an underwriting year until that time. Where an underwriting year is expected to make a loss, the loss is recognised as soon as it is foreseen.

In accordance with Lloyd's practice, the underwriting year is normally recognised as closed after three years of development, at which time any profits are distributed. Each underwriting year of account is considered separately for the purpose of determining any aggregate net profit or loss.

Accounting Policies
continued

5 REVENUE AND EXPENSE RECOGNITION (continued)

a. Corporate underwriting - Technical account (continued):

(2) Premiums

Gross premiums written, which are stated gross of acquisition cost but exclusive of premium taxes, relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the corporate members by the intermediaries.

Outwards reinsurance premiums are accounted for on the same basis and in the same accounting period as the premiums for the direct or inwards reinsurance business to which they relate.

(3) Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts.

(4) Investments

Investments in marketable securities are stated at their mid-market value at the balance sheet date.

(5) Claims

Paid claims represent all claims paid during the year and include claims handling expenses.

(6) Investment income, expenses and charges

Investment income is accounted for on a receivable basis, including, where appropriate, the imputed tax credit. Dividends are recognised on the date on which the stock goes ex-dividend. Interest income is accrued up to the balance sheet date.

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year.

Investment gains and losses relating to syndicate investments are initially taken to the Non-Technical account and subsequently transferred to the Technical account. Other investment income and other realised and unrealised gains and losses are dealt with through the Non-Technical account.

(7) Technical provisions – claims outstanding

At the end of the year provision is made for the estimated cost of outstanding claims, claims incurred but not reported (IBNR), anticipated reinsurance recoveries and claims handling expenses in respect of premiums earned at the balance sheet date.

Changes in the technical provisions are included in the Technical account.

The adequacy of the outstanding claims provision is established by reference to the underwriter's knowledge of previous claims history, case by case reviews of notified losses and, where appropriate, the use of actuarial projections. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent development.

b. Non-Technical account:

(1) Lloyd's underwriting agency fees

These represent net fee income receivable from Names at Lloyd's.

(2) Lloyd's underwriting profit commission

Profit commission is receivable after the syndicate's underwriting year of account is closed, normally at the end of three calendar years, and is accounted for when determined.

(3) Lloyd's underwriting profit or loss

Underwriting losses arising on the Technical account are provided for as and when they are foreseen, but underwriting profits are not recognised until the underwriting year of account is closed.

(4) Other insurance agencies' commissions and fees

These represent commission receivable by the Group's former insurance agencies operating overseas.

Accounting Policies
continued

5 REVENUE AND EXPENSE RECOGNITION (continued)

b. Non-Technical account (continued):

(5) Stockbroking fees and commissions

Stockbroking fees and commissions are credited when the underlying contracts are executed.

(6) Operating expenses

The Group's operations include the control and payment of expenses, some of which relate to and are recharged to managed syndicates. The residual costs are charged to the profit and loss account as incurred.

Provision is made within discontinued operations for the expected future costs of the members' agency businesses.

6 DEPRECIATION

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

Freehold building	50	years
Leasehold property	15	years
Leasehold improvements	5	years
Computer and other equipment	3 to 5	years
Motor vehicles (to contracted resale value)	3	years

7 INVESTMENTS

In the Group balance sheet, investments in subsidiary undertakings which are accounted for on an equity basis, are stated at the Group share of net tangible asset value. Other investments are stated at cost less amounts written off.

8 PENSIONS

The costs of providing pensions for staff are charged in the profit and loss account over the service lives of the employees in accordance with the recommendations of qualified independent actuaries. Any funding surpluses or deficits which may arise from time to time are amortised over the average remaining service lives of the employees. Where staff remuneration is borne by the Group's managed syndicates, the related pension costs are also charged to such syndicates.

9 DEFERRED TAXATION

Deferred taxation is accounted for on the liability method on timing differences to the extent that a liability is expected to crystallise, or an asset is expected to be recovered out of corporation tax payable on profits, within the foreseeable future.

10 LEASED ASSETS

Assets held under finance leases are treated as tangible fixed assets and depreciation is provided accordingly. The capital element of future lease payments is included in creditors and the interest element, calculated on a straight line basis, is charged to the profit and loss account over the period of the lease. Rental costs arising from operating leases are charged to the profit and loss account as incurred.

11 ONEROUS LEASES

Provision is made, on a discounted basis, for the estimated shortfall between amounts receivable and payable on leasehold properties no longer required for Group operations.

Accounting Policies
continued

12 OVERSEAS CURRENCIES

The results of overseas subsidiary undertakings are translated into sterling at the average rates of exchange for the year. The assets and liabilities of such undertakings are translated at the year end rates of exchange. Exchange translation differences arising on the opening net assets and on the results for the year are dealt with through reserves.

13 RESTRICTED SHARE SCHEMES

A provision is set up for an amount equivalent to the amortised portion of the period end market value of shares which have been awarded to participants of the Ockham Group's Restricted Share Schemes. Such amortisation is calculated on a straight line basis over the lives of the related Schemes, normally the 5 years to 31st December 2000. Where shares are acquired by, or issued to, the Ockham Trust Company Limited, such shares are included in fixed asset investments at the market value of the respective company's shares on the date those shares were awarded, and the investment is amortised against profits on a straight line basis over the life of the Scheme, normally the 5 years to 31st December 2000.

Group Profit and Loss Account

for the year to 31st December 1997

Technical account - general business

	Note	1997 £000	1996 £000
Premiums written, net of reinsurance:			
Gross premiums written - continuing business	1	4,064	993
Outward reinsurance premiums		(292)	(56)
Net premiums written		3,772	937
Allocated investment return transferred from the Non-Technical account		43	12
Other technical income, net of reinsurance			
Loss from interests in associated undertakings		(583)	-
Claims incurred, net of reinsurance:			
Claims paid		(634)	(120)
Change in the provision for claims:			
Gross amount		(2,415)	(689)
Reinsurers' share		2	43
Provision for losses foreseen on open years		(96)	-
Change in the net provision for claims		(2,509)	(646)
Claims incurred, net of reinsurance		(3,143)	(766)
Gross operating expenses	1 & 2	(709)	(171)
Personal expenses		(59)	(12)
Balance on the Technical account for general business		(679)	-

The amounts above are all in respect of continuing operations.

With the exception of the loss from interests in associated undertakings, the amounts above relate to the motor underwriting operations of Ockham Personal Insurance Holdings PLC and its subsidiary undertakings for the 11 months from January to November 1996, and for the month of December 1997 following the reacquisition of the 42% outside interest in that group's business on 1st December 1997.

Group Profit and Loss Account
for the year to 31st December 1997 (continued)

Non-Technical account

	Note	1997 £000	1996 £000
Balance on the Technical account for General Business		(679)	-
Syndicate investment income		56	12
Net realised losses on investments		(2)	-
Net unrealised losses on investments		(12)	-
Investment expenses and charges		1	-
Investment return transferred to the general business Technical account		(43)	(12)
Other income			
Continuing operations - including acquisitions £719,000 (1996 - £1,310,000)		18,778	22,799
Discontinued operations		8,358	28,034
Total other income		27,136	50,833
Total income	1	26,457	50,833
Other charges			
including Lloyd's Settlement costs £Nil (1996: £8,619,000)	3	21,766	45,563
Operating profit/(loss)			
Continuing operations - including acquisitions loss £118,000 (1996 - profit £714,000)		(410)	1,112
Discontinued operations		5,101	4,158
Total operating profit		4,691	5,270
Income from interests in associated undertakings		348	71
Provision for future costs of discontinued operations:	4 & 20		
Utilised		400	1,412
Written back		-	409
Exceptional items:			
Continuing operations - profit on disposal of Dealwise business		966	1,529
Discontinued operations:	4		
Loss on disposal of European operations		(10)	-
Reorganisation of insurance agency operations		-	(1,617)
Additional consideration on disposal of members' agency operations		183	-
(Loss)/profit on disposal of Worldwide business		(500)	431
		6,078	7,505
Net interest and other income receivable:			
Continuing operations - including acquisitions £122,000 (1996 - £55,000)		2,004	1,242
Discontinued operations		(331)	329
	6	1,673	1,571
Profit on ordinary activities before taxation		7,751	9,076
Taxation on profit on ordinary activities	7	(2,642)	(4,973)
Profit on ordinary activities after taxation		5,109	4,103
Minority interests		2	-
Profit for the financial year	8	5,111	4,103
Dividends	9	(2,284)	(2,024)
Retained profit for the financial year	22	2,827	2,079
Earnings per share	10	10.1p	8.1p

Statement of Group Total Recognised Gains and Losses

for the year to 31st December 1997

	1997 £000	1996 £000
Profit for the financial year	5,111	4,103
Unrealised gains	-	4,116
Exchange translation gains	-	29
Total recognised gains	5,111	8,248

Group Balance Sheet
at 31st December 1997

	Note	1997 £000	1996 £000
Assets			
Investments			
Investments in Group undertakings and participating interests	12	1,017	8,767
Other financial investments	12	23,094	423
		24,111	9,190
Reinsurers' share of technical provisions			
Claims outstanding		75	-
Debtors			
Debtors arising out of direct insurance operations - intermediaries		13,929	-
Reinsurance to close receivable from earlier years		199	-
Other debtors - amounts falling due within one year	15	28,797	46,287
Other debtors - amounts falling due after more than one year	16	2,500	3,848
		45,425	50,135
Other assets			
Tangible assets	11	3,314	2,669
Cash at bank and in hand	13	20,275	15,207
Investment in own shares	14	963	-
		24,552	17,876
Prepayments and accrued income			
Other prepayments and accrued income		2,235	1,302
Total assets		96,398	78,503

Group Balance Sheet
at 31st December 1997

	Note	1997 £000	1996 £000
Liabilities			
Capital and reserves			
Called-up share capital	21	10,584	10,120
Share premium account	22	759	701
Capital redemption reserve	22	710	710
Other reserve	22	1,153	4,116
Profit and loss account	22	17,025	10,082
Minority interests	22	201	-
Goodwill reserve	22	(17,680)	(1,026)
Total shareholders' funds - equity	23	12,752	24,703
Technical provisions			
Claims outstanding		29,719	-
Provision for losses foreseen on open years	19	1,147	-
		30,866	-
Provisions for other risks and charges	20	2,005	3,538
Creditors			
Creditors arising out of direct insurance operations		1,175	-
Other creditors - amounts falling due within one year	17	38,956	45,169
Other creditors - amounts falling due after more than one year	18	8,276	521
		48,407	45,690
Accruals and deferred income		2,368	4,572
Total liabilities		96,398	78,503

Approved by the board of directors and signed on its behalf on 4th March 1998 by:

Allen L. Thomas
Chairman

Andrew J. Gibson
Finance Director

Company Balance Sheet

at 31st December 1997

	Note	1997 £000	1996 £000
Fixed assets			
Tangible assets	11	119	6
Investment in own shares	14	963	-
Other investments	12	83,562	35,030
		84,644	35,036
Current assets			
Prepayments and accrued income		-	14
Debtors - amounts falling due within one year	15	30,514	15,165
Debtors - amounts falling due after more than one year	16	3,900	3,839
Cash at bank and in hand	13	89	3,451
		34,503	22,469
Accruals and deferred income		(735)	(1,542)
Creditors - amounts falling due within one year	17	(78,070)	(26,631)
Net current liabilities		(44,302)	(5,704)
Total assets less current liabilities		40,342	29,332
Creditors - amounts falling due after more than one year	18	(8,254)	(1,908)
Provisions for other risks and charges	20	-	(1,396)
Net assets		32,088	26,028
Capital and reserves			
Called-up share capital	21	10,584	10,120
Share premium account	22	58	-
Other reserve	22	1,153	-
Profit and loss account	22	20,293	15,908
Total shareholders' funds - equity	23	32,088	26,028

Approved by the board of directors and signed on its behalf on 4th March 1998 by:

Allen L. Thomas
Chairman

Andrew J. Gibson
Finance Director

Group Cash Flow Statement

for the year to 31st December 1997

	Note		1997 £000		1996 £000
Net cash inflow from operating activities	24		17,068		65
Return on investments and servicing of finance					
Interest received		2,419		1,700	
Interest paid		(746)		(129)	
			1,673		1,571
Taxation					
Corporation tax paid			(907)		(624)
Capital expenditure and financial investment					
Purchase of tangible fixed assets	11	(771)		(882)	
Sale of tangible fixed assets		246		466	
Purchase of investments		(8,895)		(423)	
Sale of investments		187		245	
			(9,233)		(594)
Acquisitions and disposals					
Investment in (1996: and equity accounting treatment of) Ockham Personal Insurance Holdings PLC		(12,659)		(2,474)	
Additional consideration on disposal of members' agency operations		183		-	
Sale of Ockham Worldwide Holdings PLC		-		1,536	
Sale of Dealwise business		1,298		1,542	
Sale of European operations		(2,757)		-	
			(13,935)		604
Equity dividends paid			(2,280)		(1,897)
Financing					
Issue of ordinary share capital		85		-	
Bank bridging loan		7,000		-	
Revolving loan facility		9,500		-	
Repayment of principal of finance leases		(322)		(526)	
			16,263		(526)
Net cash increase/(decrease)	25 & 26		8,649		(1,401)

Notes to the financial statements

for the year to 31st December 1997

1. Segmental information

(a) Insurance underwriting (all in respect of continuing operations - acquisitions)

Segmental information in the format required by the Companies Act 1985, so far as available, is as follows, and relates entirely to external customers:

	Gross premiums written		Gross claims incurred	
	1997 £000	1996 £000	1997 £000	1996 £000
Motor - third party liability	2,502	591	1,900	313
Motor - other classes	1,545	402	1,149	496
Reinsurance to close	17	-	-	-
Total	4,064	993	3,049	809

	Gross operating expenses		Reinsurance balance	
	1997 £000	1996 £000	1997 £000	1996 £000
Motor - third party liability	439	102	179	8
Motor - other classes	270	69	111	5
Total	709	171	290	13

(b) Other operations

Income and operating profit arise principally in the United Kingdom from insurance business underwritten at Lloyd's on behalf of Names resident in the United Kingdom and overseas and from stockbroking activities.

Income	1997			1996		
	Acquisitions £000	Other £000	Total £000	Acquisitions £000	Other £000	Total £000
Continuing operations:						
Stockbroking fees and commissions	-	16,294	16,294	-	16,948	16,948
Insurance agencies:						
Lloyd's underwriting profit	(96)	(583)	(679)	-	-	-
Lloyd's underwriting agency fees	136	8	144	1,308	-	1,308
Lloyd's underwriting profit commission	-	2,258	2,258	-	4,543	4,543
Other commissions and fees	-	82	82	-	-	-
	40	1,765	1,805	1,308	4,543	5,851
Total continuing operations	40	18,059	18,099	1,308	21,491	22,799
Discontinued operations:						
Insurance agencies:						
Lloyd's underwriting agency fees	-	172	172	-	1,768	1,768
Lloyd's underwriting profit commission	-	7,769	7,769	-	25,220	25,220
Other commissions and fees	-	417	417	-	1,046	1,046
Total discontinued operations	-	8,358	8,358	-	28,034	28,034
	40	26,417	26,457	1,308	49,525	50,833

Notes to the financial statements
for the year to 31st December 1997 (continued)

1. Segmental information *(continued)*

(b) Other operations *(continued)*

Income *(continued)*

Acquisitions relate to the operations of Ockham Personal Insurance Holdings PLC and its subsidiary undertakings for the 11 months from January to November 1996 and for the month of December 1997.

Other commissions and fees in discontinued operations in 1997 relate to the operations of the European businesses sold with effect from 30th June 1997 (1996: £954,000).

Operating profit/(loss)

	1997			1996		
	Acquisitions £000	Other £000	Total £000	Acquisitions £000	Other £000	Total £000
Continuing operations:						
Stockbroking	-	1,749	1,749	-	1,378	1,378
Insurance agencies and corporate members of Lloyd's	(118)	1,118	1,000	714	2,135	2,849
Central costs	-	(3,159)	(3,159)	-	(3,115)	(3,115)
	(118)	(292)	(410)	714	398	1,112
Discontinued operations:						
Insurance agencies	-	6,289	6,289	-	7,437	7,437
Central costs	-	(1,188)	(1,188)	-	(3,279)	(3,279)
	-	5,101	5,101	-	4,158	4,158
	(118)	4,809	4,691	714	4,556	5,270

Acquisitions relate to the operations of Ockham Personal Insurance Holdings PLC and its subsidiary undertakings for the 11 months from January to November 1996 and for the month of December 1997.

Discontinued operations in 1997 include a loss of £296,000 in respect of the operations of the European businesses sold with effect from 30th June 1997 (1996: loss of £867,000).

(c) Assets employed

	1997 £000	1996 £000
Continuing operations:		
Insurance activities	5,476	7,563
Stockbroking	(2,012)	2,090
Centre	151	(1,520)
	3,615	8,133
Discontinued operations	(135)	(9,188)
	3,480	(1,055)
Unallocated assets	9,272	25,758
Net assets	12,752	24,703

Unallocated assets comprise deferred taxation, taxation recoverable, 'A' and 'B' Loan Notes, cash, creditors for corporation tax, bank overdrafts and loans, and proposed dividends.

Notes to the financial statements

for the year to 31st December 1997 (continued)

2. Net operating expenses - Technical account

	1997 £000	1996 £000
Acquisition costs incurred	561	134
Administrative expenses	148	37
Total	709	171

3. Other charges

	1997 £000	1996 £000
Operating expenses comprise:		
Continuing operations	18,509	21,715
Discontinued operations	3,257	23,848
	21,766	45,563
Operating profit is stated after charging the following items (stated gross before recharges to syndicates):		
Depreciation	676	1,019
Operating lease rentals (see note 32):		
Land and buildings	1,812	3,458
Computer and other equipment	29	90
Auditors' remuneration:		
Audit fees, including Company £40,000 (1996 : £40,000)	158	176
Other services, including overseas £2,000 (1996 : £23,000)	149	228
Lloyd's settlement costs	-	8,619
Expenses incurred by the Group and recharged to managed syndicates, including the charges for use of fixed assets detailed in note 6, amounted to	1,450	23,299

4. Exceptional items on discontinued operations

(a) Loss on disposal of European operations

Ockham Europe Limited, the parent company for the Group's European operations, was sold to that company's former management, with effect from 30th June 1997, for £1. The impact of the sale was as follows:

	£000
Net assets at 30th June 1997:	
Tangible fixed assets	28
Debtors:	
Current taxation	7
Other	3,146
Cash	2,723
Creditors	(5,928)
Net liabilities carried forward	(24)
Costs of disposal	34
	10
Loss on sale	(10)
Total consideration	-

Notes to the financial statements
for the year to 31st December 1997 (continued)

4. Exceptional items on discontinued operations *(continued)*

(b) Additional consideration on disposal of members' agency operations

On 26th October 1994, the shareholders of SLA Holdings Limited approved the sale of the ongoing businesses of the Group's Lloyd's members' agencies to Falcon Agencies Limited for an initial consideration of £100,000 in cash and 400,000 6.8% (net) cumulative redeemable £1 preference shares. In addition, the Group is entitled to receive deferred cash consideration depending on the future results of Falcon Agencies Limited, the amount of which is limited to £5 million. During the year the Group received £183,000 of such consideration (1996: £nil). As a result of capital losses arising from the sale, there is no tax payable in respect of the additional consideration.

The Group's existing Lloyd's members' agencies remain responsible for the affairs of those Names who at 31st December 1994 had ceased underwriting, and provision has been made for the expected future costs of those agencies. Income arising from the 1994 and prior underwriting years of account is attributable to the Group and is accounted for when determined.

Under the terms of the sale, the Group subscribed £49,000 for 49,000 'B' Ordinary shares (being 49% of the issued ordinary share capital) in Falcon Agencies Limited and £1,000,000 in redeemable Loan Notes for working capital.

The aggregate investment in Falcon Agencies Limited, a company registered in England, amounting to £1,017,000 (1996: £1,204,000) is shown as an investment (see Note 12).

5. Employees

(a) Staff costs (including directors)

	1997 £000	1996 £000
Salaries, bonus and commission	12,010	28,665
Social security	1,007	2,552
Other pension costs	966	2,462
Other staff costs	1,242	3,568
	15,225	37,247
Amounts recharged to managed syndicates	(1,123)	(18,497)
	14,102	18,750

(b) Number of staff (including directors)

	Average for the year		At 31st December	
	1997 Number	1996 Number	1997 Number	1996 Number
Continuing operations:				
Stockbroking	274	282	284	268
Insurance agencies	60	440	623	504
Centre	21	23	21	25
	355	745	928	797
Discontinued operations	7	149	-	11
	362	894	928	808

Average headcount for 1996 included staff employed by the Group in the aviation and non-marine businesses for the 11 months to November 1996, prior to the sale of Ockham Worldwide Holdings PLC to ACE UK Limited. The 1996 average also included staff employed during the same 11 month period in the Motor business, prior to the deconsolidation of Ockham Personal Insurance Holdings PLC as a result of the investment acquired in that company by minority interests.

Average and year end headcount for 1997 include staff employed in the Motor business for the month of December, following the Group's acquisition of the controlling interest in Ockham Personal Insurance Holdings PLC on 1st December 1997.

Notes to the financial statements
for the year to 31st December 1997 (continued)

5. Employees *(continued)*

(c) Directors' emoluments

The information given below is included to comply with the Companies Act 1985. Full details of directors' emoluments and their interests in the ordinary share capital of the Company are included in the report of the Remuneration Committee on pages 22 to 26.

	1997 £000	1996 £000
Fees	117	115
Management remuneration:		
Salary	634	1,063
Performance related remuneration	107	721
Pension contributions	63	161
Long-term incentive scheme payment	-	117
Compensation for loss of office	-	25
	921	2,202
Amounts recharged to managed syndicates	(40)	(151)
	881	2,051
The emoluments of the highest paid director were:		
Emoluments excluding pension contributions	310	491
Pension contributions	45	39
	355	530

6. Net interest and other income receivable

	1997 £000	1996 £000
Bank and other interest receivable	960	1,075
Charges to managed syndicates for use of fixed assets	7	420
Loan note interest receivable	1,137	18
Investment income:		
Falcon Agencies Limited	33	123
Corporate members of Lloyd's	107	58
Other	175	6
	2,419	1,700
Finance lease interest payable	(89)	(73)
Bank interest payable	(130)	-
Other interest payable	(429)	(56)
Exchange losses	(98)	-
	(746)	(129)
	1,673	1,571

Notes to the financial statements
for the year to 31st December 1997 (continued)

7. Taxation on profit on ordinary activities

	1997 £000	1996 £000
UK corporation tax		
Current year:		
Corporation tax	2,511	1,172
Deferred tax	178	3,774
	2,689	4,946
Prior periods:		
Corporation tax	(1,787)	(4)
Deferred tax	1,796	-
	9	(4)
Overseas tax	-	7
Subsidiary undertakings accounted on an equity basis	(56)	24
	2,642	4,973

UK corporation tax has been provided at 31.5% (1996: 33.0%).

The taxation charge for 1997 includes £304,000 in respect of the gain on the sale of Dealwise. The other exceptional gains and losses in 1997 have no impact on the Group tax charge for the year.

The 1996 deferred tax charge included £2,000,000 with respect to the profit of £431,000 which arose on the disposal of Ockham Worldwide Holdings PLC. Excluding the distorting impact of this disposal, the total taxation charge for 1996 represented an effective rate of 54.8% on the profit before taxation. The excess in this rate by comparison with the corporation tax rate arose from permanent disallowable costs and unrelieved overseas losses offset by tax relief on expenditure expected to be incurred in 1997 out of existing provisions.

8. Profit for the financial year

	1997 £000	1996 £000
The profit for the financial year attributable to the shareholders has been dealt with as follows:		
In the accounts of the Company	4,385	15,881
Retained by subsidiary undertakings:		
Consolidated	905	(11,825)
Accounted for on an equity basis	(179)	47
	5,111	4,103

9. Dividends on ordinary 20p shares

	1997 £000	1996 £000
Interim paid of 1.5p per share (1996 : 1.0p per share)	762	506
Final proposed of 3.0p per share (1996 : 3.0p per share)	1,522	1,518
	2,284	2,024

Notes to the financial statements
for the year to 31st December 1997 (continued)

10. Earnings per share

	1997 £000	1996 £000
Profit for the financial year	5,111	4,103

	Number of shares	Number of shares
Number of shares in issue and ranking for dividend	50,662,973	50,599,233
Earnings per share	10.1p	8.1p

11. Tangible assets

	Freehold property £000	Leasehold property £000	Leasehold improve-ments £000	Computer and other equipment £000	Motor vehicles owned £000	Motor vehicles leased £000	Total
Group							
Cost							
At 1st January 1997	2,299	-	943	2,982	43	1,106	7,373
Additions	-	268	6	451	46	394	1,165
Disposals	-	-	-	(1,010)	(95)	(324)	(1,429)
Subsidiary undertakings:							
Now accounted for on a consolidated basis	-	-	-	2,065	522	-	2,587
Disposals	-	-	-	(146)	-	-	(146)
At 31st December 1997	2,299	268	949	4,342	516	1,176	9,550
Accumulated depreciation							
At 1st January 1997	1,235	-	857	2,378	28	206	4,704
Charge for the year	23	8	42	379	21	203	676
Disposals	-	-	-	(1,002)	(73)	(151)	(1,226)
Subsidiary undertakings:							
Now accounted for on a consolidated basis	-	-	-	1,892	308	-	2,200
Disposals	-	-	-	(118)	-	-	(118)
At 31st December 1997	1,258	8	899	3,529	284	258	6,236
Net book value							
At 31st December 1997	1,041	260	50	813	232	918	3,314
At 31st December 1996	1,064	-	86	604	15	900	2,669

Leasehold property has a life of 15 years.
Leasehold improvements are in respect of leases with a life of under 50 years.

With the exception of motor vehicles and leasehold property, which are shown separately, there are no leased assets included in the table above.

Notes to the financial statements
for the year to 31st December 1997 (continued)

11. Tangible assets (continued)

	Freehold property £000	Leasehold property £000	Leasehold improve-ments £000	Computer and other equipment £000	Motor vehicles owned £000	Motor vehicles leased £000	Total
Company							
Cost							
At 1st January 1997	-	-	-	7	-	-	7
Additions	-	-	6	88	46	-	140
At 31st December 1997	-	-	6	95	46	-	147
Accumulated depreciation							
At 1st January 1997	-	-	-	1	-	-	1
Charge for the year	-	-	-	15	12	-	27
At 31st December 1997	-	-	-	16	12	-	28
Net book value							
At 31st December 1997	-	-	6	79	34	-	119
At 31st December 1996	-	-	-	6	-	-	6

12. Investments

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Investments in Group undertakings and participating interests:				
Shares in Group undertakings:				
Consolidated	-	-	83,562	26,984
Accounted for on an equity basis	-	7,563	-	8,046
Participating interests:				
Falcon Agencies Limited (note 4)	1,017	1,204	-	-
	1,017	8,767	83,562	35,030
Other financial investments:				
Interest-bearing deposits held as security by the Corporation of Lloyd's	14,148	-	-	-
Shares and other variable-yield securities and units in unit trusts	955	-	-	-
Debt securities and other fixed income securities	7,900	-	-	-
Other	91	423	-	-
	23,094	423	-	-
	24,111	9,190	83,562	35,030

The interest-bearing deposits are secured by Lloyd's premium trust deed to the Society of Lloyd's.

The Company's investments in Ockham Personal Insurance Holdings PLC, Wise Speke Group PLC, SLA Holdings Limited and Ockham Limited are secured by a first legal charge to Lloyds Bank Plc, as security for the Revolving Loan Facility (note 17).

Further details of subsidiary undertakings are given on page 62.

Notes to the financial statements

for the year to 31st December 1997 (continued)

13. Cash at bank and in hand

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Syndicate trust funds	8,056	-	-	-
Other cash at bank and in hand	12,219	15,207	89	3,451
	20,275	15,207	89	3,451

14. Investment in own shares

	Group	Company
	1997 £000	1996 £000
Cost		
At 1st January 1997	-	-
Additions	1,440	1,440
At 31st December 1997	1,440	1,440
Amortisation		
At 1st January 1997	-	-
Transfer from deferred asset	317	317
Charge for the year	160	160
At 31st December 1997	477	477
Net book value		
At 31st December 1997	963	963
At 31st December 1996	-	-

2,186,522 ordinary 20p shares were issued to Ockham Trust Company Limited on 18th June 1997 in relation to awards made under the Ockham Holdings PLC Restricted Share Scheme. The shares are valued at the market value of Ockham Holdings PLC shares on the respective dates on which those awards were originally made.

In January 1998 a further 324,515 such shares were issued in respect of further awards.

Notes to the financial statements

for the year to 31st December 1997 (continued)

15. Other debtors - amounts falling due within one year

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Trade:				
Stockbroking	12,880	23,840	-	-
Insurance	234	4,990	-	-
'A' Loan Notes	13,500	13,500	10,300	13,500
Subsidiary undertakings:				
Consolidated	-	-	7,323	5
Accounted for on an equity basis	-	331	-	243
Syndicate expense recoveries	75	-	-	-
Other syndicate debtors	526	-	-	-
Other debtors	1,582	3,295	11,547	330
Taxation recoverable	-	-	1,344	808
Deferred expenditure:				
Long-term incentive scheme	-	279	-	279
Other	-	52	-	-
	28,797	46,287	30,514	15,165

The 'A' Loan Notes, issued by ACE UK Limited and guaranteed by Lloyds Bank Plc, carried interest at the market rate for sterling deposits available from Lloyds Bank Plc. These loan notes were subsequently redeemed by the Company on 2nd January 1998.

16. Other debtors - amounts falling due after more than one year

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
'B' Loan Notes	2,500	3,000	2,500	3,000
Subsidiary undertakings	-	-	1,400	-
Deferred expenditure:				
Long-term incentive scheme	-	839	-	839
Other	-	9	-	-
	2,500	3,848	3,900	3,839

The 'B' Loan Notes, issued by ACE UK Limited and guaranteed by A.C.E. Insurance Company Ltd, are secured by a deposit with Lloyds Bank Plc and carry interest at the market rate for sterling deposits available from Lloyds Bank Plc. These Loan Notes are redeemable following the release of the profit commission for the 1996 underwriting year of account which is expected in April 1999.

Notes to the financial statements
for the year to 31st December 1997 (continued)

16. Other debtors - amounts falling due after more than one year *(continued)*

Deferred taxation arises as follows:

	Advance Corporation Tax £000	Timing differences £000	Total £000
Group			
At 1st January 1997	-	227	227
Transfer to other creditors	-	(227)	(227)
At 31st December 1997	-	-	-

17. Other creditors - amounts falling due within one year

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Trade:				
Stockbroking	13,200	20,590	-	-
Insurance	1	6,056	-	-
Lloyd's Settlement proposals	-	5,700	-	-
Subsidiary undertakings:				
Consolidated	-	-	59,635	24,501
Accounted for on an equity basis	-	241	-	29
Finance leases	320	323	-	-
Other syndicate creditors	1,329	-	-	-
Other creditors	3,870	5,316	290	297
Corporation tax	1,180	860	-	-
Social security costs	817	767	123	286
Bank overdrafts (unsecured and repayable on demand)	217	3,798	-	-
Bank bridging loan	7,000	-	7,000	-
Revolving loan facility	9,500	-	9,500	-
Proposed dividend	1,522	1,518	1,522	1,518
	38,956	45,169	78,070	26,631

The bank bridging loan was secured on the 'A' Loan notes and was subsequently redeemed on 2nd January 1998.

The revolving loan facility is secured on the Company's investments in Ockham Personal Insurance Holdings PLC, Wise Speke Group PLC, SLA Holdings Limited and Ockham Limited. This facility bears interest at 1.25% over Lloyds Bank Plc base rate and is repayable on demand.

Notes to the financial statements
for the year to 31st December 1997 (continued)

18. Other creditors - amounts falling due after more than one year

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Finance leases (repayable between 1 and 5 years)	647	572	-	-
Loan notes	6,300	-	6,300	-
Deferred taxation	1,284	(227)	1,954	1,908
Other creditors	45	176	-	-
	8,276	521	8,254	1,908

The loan notes, which are unsecured, were issued to the US Investor Group on 1st December 1997 on completion of the purchase of their 42% equity interest in Ockham Personal Insurance Holdings PLC. The loan notes are repayable on any interest payment date between 1st December 1999 and 1st December 2002, at the holders' option. The loan notes bear interest at 2.25% over Lloyds Bank Plc base rate, payable on 1st June and 1st December in each year until the loan notes are redeemed.

Deferred taxation arises as follows:

	Advance Corporation Tax £000	Timing differences £000	Total £000
Group			
At 1st January 1997	-	-	-
Transfer from other debtors	-	(227)	(227)
Acquired on purchase of subsidiary undertakings	-	(463)	(463)
Profit and loss account	-	1,974	1,974
At 31st December 1997	-	1,284	1.284

	Advance Corporation Tax £000	Timing differences £000	Total £000
Company			
At 1st January 1997	-	1,908	1.908
Profit and loss account	-	46	46
At 31st December 1997	-	1,954	1.954

The balance at 31st December 1997 includes £2,000,000 (1996: £2,000,000) in respect of the gain on the sale of Ockham Worldwide Holdings PLC to ACE UK Limited in 1996.

There were no unprovided deferred taxation liabilities at 31st December 1997 or 31st December 1996.

19. Provision for losses foreseen on open years

	£000
Group	
At 1st January 1997	-
Acquired on purchase of subsidiary undertakings	1,051
Provided in the year	96
At 31st December 1997	1,147

Notes to the financial statements
for the year to 31st December 1997 (continued)

20. Provisions for other risks and charges

	Future costs of discontinued operations £000	Onerous leases £000	Restricted Share Schemes £000	Total £000
Group				
At 1st January 1997	1,000	1,142	1,396	3,538
Acquired on purchase of subsidiary undertakings	-	-	439	439
Provided/(written back) in the year	-	150	(1,356)	(1,206)
Utilised in the year	(400)	(366)	-	(766)
At 31st December 1997	600	926	479	2,005
Company				
At 1st January 1997	-	-	1,396	1,396
Written back in the year	-	-	(1,396)	(1,396)
At 31st December 1997	-	-	-	-

In June 1997, the Company issued shares to Ockham Trust Company Limited in relation to awards made under the Company's Restricted Share Scheme.

21. Called-up share capital

	1997		1996	
	Number of shares	£000	Number of shares	£000
Ordinary 20p shares:				
Authorised	70,028,208	14.006	70,028,208	14,006
Allotted, issued and fully paid	52,920,755	10.584	50,599,233	10,120

2,186,522 ordinary 20p shares were issued to Ockham Trust Company Limited on 18th June 1997 in relation to awards made under the Ockham Holdings PLC Restricted Share Scheme.

In January 1998 a further 324,515 such shares were issued in respect of further awards.

During 1997, Ordinary 20p shares were issued on the exercise of executive share options as follows:

Date	Shares issued	Exercise price
29th April	65,000	72p
26th June	35,000	55p
15th December	35,000	55p

Options have been granted and remain outstanding in respect of Ordinary 20p shares in the executive share option schemes as follows:

	1997 Number	1996 Number	Exercisable to	Price range
1984 Scheme	100,000	531,149	June 2004	55p to 72p
1989 Scheme	160,000	456,000	January 2002	212p to 283p
	260,000	987,149		

Under the Sale and Purchase Agreement of 1st December 1997, Warrants to subscribe for 5 million Ordinary 20p shares in Ockham Holdings PLC were issued to the US Investor Group from whom the Company acquired 42% of the issued share capital of Ockham Personal Insurance Holdings PLC. These Warrants, which were valued in aggregate at £150,000, can be exercised at 125p per share at any time between the second and eighth anniversary of completion of the Agreement (note 27).

Notes to the financial statements

for the year to 31st December 1997 (continued)

22. Reserves

Group

	Share premium account £000	Capital redemption reserve £000	Other reserve £000	Profit and loss account £000	Minority interests £000	Goodwill reserve £000
At 1st January 1997	701	710	4,116	10,082	-	(1,026)
Ordinary 20p shares issued	58	-	1,003	-	-	-
Acquisition of syndicate capacity by Ockham Personal Insurance Holdings PLC	-	-	-	-	-	(2,445)
Acquisition of 42% interest in Ockham Personal Insurance Holdings PLC	-	-	150	-	203	(14,209)
Transfer	-	-	(4,116)	4,116	-	-
Retained profit for the financial year	-	-	-	2,827	(2)	-
At 31st December 1997	759	710	1,153	17,025	201	(17,680)

The transfer from other reserve to profit and loss account arises from the acquisition of the minority interest in Ockham Personal Insurance Holdings PLC.

The cumulative amount of goodwill arising from acquisitions, before deducting share premium relief, amounts to £29,119,000 (1996 : £12,465,000).

Company

	Share premium account £000	Other reserve £000	Profit and loss account £000
At 1st January 1997	-	-	15,908
Ordinary 20p shares issued	58	1,003	-
Acquisition of 42% interest in Ockham Personal Insurance Holdings PLC	-	150	-
Retained profit for the financial year	-	-	4,385
At 31st December 1997	58	1,153	20,293

Notes to the financial statements
for the year to 31st December 1997 (continued)

23. Reconciliation of movements in shareholders' funds

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Profit for the financial year	5,111	4,103	6,669	17,905
Unrealised gains	-	4,116	-	-
Exchange translation gains	-	29	-	-
Dividends	(2,284)	(2,024)	(2,284)	(2,024)
	2,827	6,224	4,385	15,881
Ordinary 20p shares issued	1,525	-	1,525	-
Minority interest on acquisition of controlling interest in OPIH Group	201	-	-	-
Warrants issued on acquisition of controlling interest in OPIH Group	150	-	150	-
Goodwill arising on acquisition of syndicate capacity by OPIH Group	(2,445)	-	-	-
Goodwill arising on acquisition of controlling interest in OPIH Group	(14,209)	-	-	-
Goodwill on discontinued activities reinstated	-	16,337	-	-
Goodwill on insurance agencies reinstated	-	1,465	-	-
Goodwill on minority interest reinstated	-	441	-	-
Net (decrease)/increase in shareholders' funds	(11,951)	24,467	6,060	15,881
Shareholders' funds at 1st January	24,703	236	26,028	10,147
Shareholders' funds at 31st December	12,752	24,703	32,088	26,028

24. Reconciliation of operating profit to net cash inflow from operating activities

	Group	
	1997 £000	1996 £000
Operating profit	4,691	5,270
Share of loss of subsidiary undertakings included under equity accounting principles	583	-
Provision for future costs of discontinued operations:		
utilised	400	1,412
written back	-	409
Exceptional items - revenue reorganisation costs	-	(152)
Depreciation	676	1,019
Amortisation	238	278
Sale of tangible fixed assets - profit	(43)	(34)
Debtors - increase	(426)	(1,928)
Creditors - increase	12,616	9,245
Provisions for other risks and charges - decrease	(1,667)	(15,454)
Net cash inflow from operating activities	17,068	65

Notes to the financial statements
for the year to 31st December 1997 (continued)

25. Reconciliation of net cash increase/(decrease) to movement in net (debt)/funds

	Group 1997 £000	Group 1996 £000
Net cash increase/(decrease) in the year	8,649	(1,401)
Cash inflow from increase in debt	(16,500)	-
Cash outflow from repayment of loan notes and finance leases	322	526
Decrease in net funds resulting from cash flows	(7,529)	(875)
New finance leases	(394)	(675)
Loan notes issued	(6,300)	-
Decrease in net funds in the year	(14,223)	(1,550)
Net funds at 1st January	10,514	12,064
Net (debt)/funds at 31st December	(3,709)	10,514

26. Analysis of net (debt)/funds

	1st January 1997 £000	Cash flow £000	Other non-cash changes £000	31st December 1997 £000
Group				
Net cash:				
Cash	15,207	5,068	-	20,275
Bank overdrafts	(3,798)	3,581	-	(217)
	11,409	8,649	-	20,058
Bank bridging loan	-	(7,000)	-	(7,000)
Revolving loan facility	-	(9,500)	-	(9,500)
Loan notes	-	-	(6,300)	(6,300)
	-	(16,500)	(6,300)	(22,800)
Finance leases	(895)	322	(394)	(967)
Net funds/(debt)	10,514	(7,529)	(6,694)	(3,709)

Notes to the financial statements
for the year to 31st December 1997 (continued)

27. Acquisition of Ockham Personal Insurance Holdings PLC

On 27th November 1996, minority interests subscribed for 44.5% of the issued ordinary capital of this subsidiary undertaking, which was previously wholly owned. In view of the rights granted to the minority shareholders, the performance of this company was, from this date, included in the financial statements using equity accounting principles.

On 1st December 1997, the Company reacquired 42% of the issued ordinary capital of Ockham Personal Insurance Holdings PLC from those minority interests. The impact of the acquisition was as follows:

	£000
Net assets at date of acquisition – at cost and fair value:	
Fixed assets:	
Tangible assets	387
Investments – deposits at Lloyd's	14,108
Debtors:	
Deferred taxation	463
Other	615
Cash at bank and in hand	780
Creditors:	
Current taxation	(496)
Loan notes	(1,400)
Other	(3,660)
Provisions	(1,490)
Net assets	9,307
Less preference share capital	(1,189)
Net equity	8,118
42% share acquired	3,410
Preference share capital acquired – including accrued dividends thereon	999
Loan notes acquired – including accrued interest thereon	1,271
Goodwill	14,209
Total consideration	19,889
The consideration for the acquisition was satisfied by:	
Cash paid on 1st December 1997	12,600
Unsecured loan notes issued	6,300
Warrants	150
	19,050
Costs of acquisition	839
Total consideration	19,889

Notes to the financial statements
for the year to 31st December 1997 (continued)

27. Acquisition of Ockham Personal Insurance Holdings PLC (continued)

The vendors received 5 million Warrants to subscribe in cash for one new Ordinary 20p share in Ockham Holdings PLC per Warrant at a price of 125p per share at any time between 1st December 1999 and 1st December 2005. These Warrants were valued by Cazenove & Co., the Company's stockbrokers, who estimated that, had they been in issue on 3rd November 1997, they would have had a value of approximately 3.0p per Warrant, giving an aggregate value of the Warrants of £150,000.

The results of Ockham Personal Insurance Holdings PLC and its subsidiary undertakings for the year to 31st December 1996 and for the 11 months to 30th November 1997 were as follows:

Technical account - general business

	1997 £000	1996 £000
Premiums written, net of reinsurance:		
Gross premiums written – continuing business	44,698	1.083
Outward reinsurance premiums	(3,215)	(61)
Net premiums written	41,483	1.022
Allocated investment return transferred from the Non-Technical account	453	13
Claims incurred, net of reinsurance:		
Claims paid	(6,971)	(131)
Change in the provision for claims:		
Gross amount	(26,552)	(752)
Reinsurers' share	25	47
Provision for losses foreseen on open years	(1,051)	-
Change in the net provision for claims	(27,578)	(705)
Claims incurred, net of reinsurance	(34,549)	(836)
Gross operating expenses	(7,789)	(186)
Personal expenses	(649)	(13)
Balance on the Technical account for general business	(1,051)	-

Notes to the financial statements
for the year to 31st December 1997 (continued)

27. Acquisition of Ockham Personal Insurance Holdings PLC (continued)

Non-technical account

	1997 £000	1996 £000
Balance on the Technical account for general business	(1,051)	-
Syndicate investment income	616	13
Net realised losses on investments	(150)	-
Investment expenses and charges	(13)	-
Investment return transferred to the general business Technical account	(453)	(13)
Other income		
Continuing operations	1,571	1,391
Total income	520	1,391
Operating expenses	1,786	1,560
Operating loss	(1,266)	(169)
Net interest and other income receivable/(payable)	875	(209)
Loss before taxation	(391)	(378)
Taxation	(101)	148
Loss after taxation	(290)	(526)
Preference dividends payable	81	8
Retained loss	(371)	(534)

There were no other recognised gains or losses during the year to 31st December 1996 or the 11 months to 30th November 1997.

28. Pensions

The Group operates two defined benefit pension schemes covering the majority of its employees and directors. The funds of the schemes are controlled by trustees and are administered externally.

The principal scheme applicable to employees engaged in insurance activities is The Ockham Pension Scheme. The latest actuarial valuation of this scheme was carried out by an independent qualified actuary as at 1st January 1996 using the projected unit method to value the liabilities. The market value of the scheme's assets was £62,981,000 and the level of funding at that date was some 116%. The actuary recommended that the next actuarial valuation of the scheme be conducted no later than 1st January 1999.

The assumptions used in the valuation of The Ockham Pension Scheme as at 1st January 1996 were:

	Percentage per annum
Rate of return on investments	8.5
Increase in earnings	6.5
Increase in pensions in course of payment	5.0

The Company has agreed with the actuary to maintain contributions into the Ockham Pension Scheme at the previous rate of 21.2% of pensionable salary.

The latest independent actuarial valuation of the Wise Speke Limited scheme, applicable to stockbroking activities, was carried out as at 1st January 1995, using the projected unit credit method to value the liabilities. The market value of the scheme's assets was £2,550,000 and the level of funding at that date was 97%. The next actuarial valuation of the scheme is to be conducted as at 1st January 1998.

Notes to the financial statements
for the year to 31st December 1997 (continued)

28. Pensions (continued)

The assumptions used in the valuation of the Wise Speke Limited scheme as at 1st January 1995 were:

	Percentage per annum
Rate of return on investments	9.0
Increase in earnings	7.0
Increase in pensions in course of payment	3.0

The contribution rate to the Wise Speke Limited scheme was increased to 15.9% of pensionable salary from 1st January 1996 in line with the actuary's recommendation.

The total cost of pensions during the year, including amounts recharged to the managed syndicates, was £1,755,000 (1996: £2,540,000).

29. Guarantees

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Bank guarantees with respect to employees' and former employees' membership of Lloyd's	684	942	-	-
Guarantee required by the Corporation of Lloyd's with regard to the financial resources of subsidiary undertakings which are managing and members' agencies	2,000	2,000	-	-
Subscription of capital to a subsidiary undertaking	-	-	-	1,136

The Company has guaranteed the payment by The Ockham Pension Scheme to the scheme operated by ACE UK Limited of the transfer amount applicable to employees of Ockham Worldwide Holdings PLC. A subsidiary undertaking has guaranteed the value of the pension rights attaching to its employees who transferred to Syndicate Underwriting Management Limited. The Directors consider it unlikely that any liability will arise from these pension guarantees.

30. Litigation

During the year, as expected, the majority of actions against the Group's managing and members' agency subsidiary undertakings in respect of the Lloyd's market litigation have been discontinued or dismissed. There remains a small number of actions outstanding where there has been no activity but where writs have not been formally dismissed. There also remains a possibility that a small minority of Names who did not accept the Lloyd's Settlement Offer might decide to pursue litigation against the Group. Nonetheless the Directors consider that the likelihood of any residual litigation having a material adverse effect on the financial position of the Group is minimal.

Notes to the financial statements
for the year to 31st December 1997 (continued)

31. Capital commitments

Expenditure authorised which has not been provided for amounted to:

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Tangible fixed assets:				
Contracts placed	76	145	4	46
Contracts authorised but not yet placed	31	12	-	-
Investment in Ockham Personal Insurance Holdings PLC – committed:				
Preference shares	-	704	-	704
Loan capital	-	896	-	896

32. Lease commitments

The Group has annual operating lease commitments, a portion of which will either be paid directly by managed syndicates or recharged to them as incurred, as follows:

	Land and buildings		Computer equipment	
	1997 £000	1996 £000	1997 £000	1996 £000
Commitments expiring:				
Within one year	106	68	-	6
Two to five years	656	936	22	34
Over five years	1.781	1,566	-	3
	2.543	2,570	22	43

33. Related party transactions

The following information regarding related party transactions is given in accordance with Financial Reporting Standard 8 for the year to 31st December 1997:

(a) **Falcon Agencies Limited**

The Group has a 49% interest in the issued ordinary share capital of Falcon Agencies Limited. The Group charged rent, administration services and telephone costs amounting to £352,000 to Falcon Agencies Limited (1996: £1,079,000) and that company charged £410,000 (1996: £1,008,000) to the Group for the provision of members' agency run-off services. During the year the Group received additional consideration of £183,000 from Falcon Agencies Limited (1996 – £Nil).

(b) **Managed syndicates**

Expenses incurred by the Group and recharged to managed syndicates amounted to £12,632,000. (1996: £23,299,000). Key management supported the managed syndicates for capacity of £399,000 during the 1997 year of account (1996: £2,220,000). The Group received managing agency fees of £3,000 (1996: £12,000) with respect to this underwriting and also profit commission of £6,000 with respect to the 1994 year of account (£99,000 with respect to the 1993 year of account).

Bank guarantees, which amounted to £78,000 at 31st December 1997 (1996: £197,000), have been granted by the Group to support underwriting by key management.

(c) **Ockham Personal Insurance Holdings PLC ("OPIH")**

On 1st December 1997, the Group interest in OPIH was increased to 97.5% (see note 27). Between 1st January 1997 and that date, the Group charged OPIH £645,000 for expenses including management and information technology costs and OPIH charged the Group £25,000 for expenses.

Notes to the financial statements

for the year to 31st December 1997 (continued)

33. Related party transactions (continued)

(d) **Acquisition of 42% minority interest**

Under the terms of the Sale and Purchase Agreement of 1st December 1997, the US Investors who formerly owned 42% of the issued ordinary share capital of Ockham Personal Insurance Holdings PLC received £12,600,000 cash, £6,300,000 in unsecured loan notes and warrants (valued at an aggregate £150,000) to subscribe for 5,000,000 ordinary shares in Ockham Holdings PLC at a price of 125p per share, at any time between the second and eighth anniversary of the Agreement. As part of that Agreement, the US Investors gave up any rights to receive dividends and loan interest from Ockham Personal Insurance Holdings PLC, and to share in that company's profits and losses.

(e) **Bond Lovis Group**

Mr Q J Lovis, the active underwriter of Highway Motor Syndicates 37 and 2037, and his wife are directors of, and have equity interests in Bond Lovis Insurance Brokers Limited and C R Adams Insurance Brokers Limited.

Those Motor Syndicates, which are managed by Ockham Personal Insurance Agency Limited, paid commission of £225,000 to those companies in 1997 in respect of insurance policies placed with the Syndicates.

(f) **The London Stock Exchange Limited**

Mr N Sherlock, the Chairman of Wise Speke Limited, is a director of The London Stock Exchange Limited. The Wise Speke Group of companies paid fees of £149,474 to The London Stock Exchange Limited for services provided and £19,035 for membership. The provision of these services was on an arms length basis.

(g) **ACE UK Limited**

ACE UK Limited acquired Ockham Worldwide Holdings PLC from the Company in November 1996. Under the terms of the Sale and Purchase Agreement, the 1994 and 1995 underwriting accounts of the Aviation and Non-marine syndicates managed by SASM Ltd and SNSM Ltd are being run off by subsidiary undertakings of ACE UK Limited. The Lord Poole is a non-executive director of ACE UK Limited, and received fees of £10,000 from ACE UK Limited in 1997 for his services to that company.

(h) **Ockham Europe Limited**

The Company sold its investment in Ockham Europe Limited, which owned the Group's investments in insurance agencies operating in France and Germany, to Mr NP Samuelson, who formerly managed those agencies, for £1, with effect from 30th June 1997. In the 6 months to 31st December 1997, the Group has charged Greenhill International Insurance Holdings Ltd (formerly Ockham Europe Limited) £139,000 in respect of accommodation and administration services provided to that company by the Group during that period.

(i) **Other transactions with key management**

Investment management services have been purchased from the Wise Speke Group of companies and motor insurance from Highway motor Syndicate 37. The value of these transactions are not material to the Group, the Syndicate or the key management concerned.

Motor vehicles are sold to employees at the guaranteed residual values at which subsidiary undertakings acquired the vehicles or at market value. During the year, sale proceeds to key management were £1,200 (1996 : £6,000).

Subsidiary Undertakings
at 31st December 1997

MOTOR AND PERSONAL LINES INSURANCE OPERATIONS

Ockham Personal Insurance Holdings PLC* (note iv)	Intermediate holding company
Ockham Corporate Limited (note iv)	Corporate member of Lloyd's
Ockham Personal Investments Limited (note iv)	Intermediate holding company
Ockham Personal Insurance Agency Limited (note iv)	Lloyd's managing agency
SMSM Limited	Lloyd's managing agency

FINANCIAL SERVICES

Wise Speke Group PLC*	Intermediate holding company
Wise Speke Limited	Stockbrokers
Pilgrim Unit Trust Management Limited	Unit trust managers
Pilgrim Nominees Limited	Nominee company
Wise Speke Financial Services Limited	Financial services company

OTHER CONTINUING OPERATIONS

Ockham Limited*	Property holding company
SLA Holdings Limited*	Intermediate holding and management services company
Ockham Trust Company Limited*	Guernsey Trust Company

DISCONTINUED OPERATIONS

SASM Limited	Lloyd's managing agency
SNSM Limited	Lloyd's managing agency
RWS Agency Limited	Lloyd's members' agency
SLA Mem D Limited	Lloyd's members' agency
Stafford Run-off Agency Limited	Lloyd's members' agency

Notes:

(i) Unless otherwise stated, the Group owned 100% of the equity share capital and voting rights of the undertakings which operate in the United Kingdom and are registered in England.

(ii) Undertakings which in the opinion of the directors did not materially affect the results or assets of the Group are not shown.

(iii) *Indicates held directly by Ockham Holdings PLC.

(iv) The interests of Ockham Holdings PLC in the share and loan capital of Ockham Personal Insurance Holdings PLC comprised:

	Percentage held	Nominal value £000
Equity shares	97.5%	11,589
Preference shares	100.0%	1,100
Loan capital	100.0%	1,400

Ockham Corporate Limited, Ockham Personal Investments Limited and Ockham Personal Insurance Agency Limited are wholly owned subsidiary undertakings of Ockham Personal Insurance Holdings PLC.

From 27th November 1996, these companies were included in the consolidated financial statements under equity accounting principles in view of the rights granted to the minority shareholders. Following completion of the purchase of the 42.0% equity interest formerly held by certain minority shareholders, on 1f December 1997, these companies are included in the consolidated financial statements as subsidiary undertakings from that date.

Consolidated Five Year Summary

Profit and loss account

	Year to 31st December			15 months to 31st December	Year to 30th September	
	1997	1996	1995 (pro-forma & unaudited)	1995 (pro-forma)	1994	1993
	£000	£000	£000	£000	£000	£000
Technical account for general business						
Net premiums written	3,772	937	-	-	-	-
Allocated investment return	43	12	-	-	-	-
Loss from interests in associated undertakings	(583)	-	-	-	-	-
Claims incurred, net of reinsurance	(3,143)	(766)	-	-	-	-
Gross operating expenses	(709)	(171)	-	-	-	-
Personal expenses	(59)	(12)	-	-	-	-
Balance on the Technical account for general business	(679)	-	-	-	-	-
Non-Technical account						
Balance on the Technical account for general business	(679)	-	-	-	-	-
Other income	27,136	50,833	23,393	28,167	26,876	33,404
Total income	26,457	50,833	23,393	28,167	26,876	33,404
Operating expenses	21,766	45,563	36,907	43,659	28,713	34,723
Operating profit/(loss)	4,691	5,270	(13,514)	(15,492)	(1,837)	(1,319)
Income from interests in associated undertakings	348	71	-	-	-	-
Future losses on discontinued operations utilised/(provided)	400	1,821	998	1,204	(3,781)	-
Exceptional items	639	343	-	-	(11,991)	-
Profit/(loss) before interest and taxation	6,078	7,505	(12,516)	(14,288)	(17,609)	(1,319)
Net interest and other income receivable	1,673	1,571	2,711	3,281	2,052	2,529
Profit/(loss) on ordinary activities before taxation	7,751	9,076	(9,805)	(11,007)	(15,557)	1,210
Taxation on profit/(loss) on ordinary activities	2,642	4,973	(2,707)	(2,958)	204	473
Profit/(loss) after taxation	5,109	4,103	(7,098)	(8,049)	(15,761)	737
Minority interests	2	-	-	-	-	-
Profit/(loss) for the financial period	5,111	4,103	(7,098)	(8,049)	(15,761)	737
Dividends (see Note)	2,284	2,024	1,897	1,897	1,518	1,518
Retained profit/(loss) for the financial period	2,827	2,079	(8,995)	(9,946)	(17,279)	(781)
Statistics						
Earnings/(loss) per share	10.1p	8.1p	(14.0p)	(15.9p)	(31.1p)	1.5p
Dividends per share (see Note)	4.5p	4.0p	3.75p	3.75p	3.0p	3.0p

Note:

The dividend for the year to 31st December 1995 of 3.75p per share and amounting to £1,897,000 was the total paid with respect to the 15 months to 31st December 1995.

Consolidated Five Year Summary *(continued)*

Balance sheet

	31st December			30th September	
	1997 £000	1996 £000	1995 £000	1994 £000	1993 £000
Assets					
Fixed assets	28,388	11,859	5,899	4,352	5,134
Current assets	68,010	66,644	53,620	46,876	61,993
Total assets	96,398	78,503	59,519	51,228	67,127
Liabilities					
Called-up share capital	10,584	10,120	10,120	10,120	10,120
Share premium account	759	701	701	701	701
Capital redemption reserve	710	710	710	710	710
Other reserve	1,153	4,116	-	-	-
Profit and loss account	17,025	10,082	7,974	18,062	31,489
Minority interests	201	-	-	-	-
Goodwill reserve	(17.680)	(1,026)	(19,269)	(19,269)	(27,878)
	12.752	24,703	236	10,324	15,142
Creditors due within one year	42,499	49,741	39,705	30,298	46,688
Creditors due after one year	8.276	521	586	702	724
Provisions	32,871	3,538	18,992	9,904	4,573
Total liabilities	96,398	78,503	59,519	51,228	67,127

Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the City of London Club, 19 Old Broad Street, London, EC2N 1DS on Wednesday 6th May 1998 at 10:00am to transact the following business:

Ordinary business

Resolution 1
To receive and adopt the financial statements of the Company for the year to 31st December 1997 together with the directors' and auditors' reports thereon and to declare a final dividend.

Resolutions 2 and 3
To re-elect Mr D E Coleridge and Mr A L Thomas as directors.

Resolution 4
To reappoint Price Waterhouse as the auditors and to authorise the directors to determine their remuneration.

Special business

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions (see explanations on page 66).

Resolution 5
That the Company be and is hereby granted general and unconditional authority to make market purchases (as defined in section 163 of the Companies Act 1985) of any of its own ordinary shares on such terms and in such manner as the Board of directors of the Company may from time to time determine provided that the general authority conferred by this resolution shall:

(i) be limited to 5,324,527 ordinary 20p shares;

(ii) not permit the payment per share of more than 5 per cent above the average of the middle market quotations of an ordinary 20p share of the Company on the London Stock Exchange as derived from the London Stock Exchange Daily Official List of the five business days immediately prior to the date of purchase or less than 20p (in each case exclusive of advance corporation tax payable (if any) and expenses); and

(iii) expire at the conclusion of the Annual General Meeting of the Company held in 1999 (except in relation to the purchase of shares the contract for which was concluded before the expiration of the said period and which might be executed wholly or partly after such date).

Resolution 6
That the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred on them by resolution 2 passed at the Extraordinary General Meeting of the Company held on 1st December 1997 as if section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited to:

(i) the allotment of ordinary shares of 20p each in the Company pursuant to the terms of warrants issued on 1st December 1997;

(ii) the allotment of equity securities in connection with or pursuant to an issue or offer by way of rights to the holders of equity securities and other persons entitled to participate in such issue or offer in proportion (as nearly as may be) to the respective number of equity securities held or deemed to be held by them on the record date of such allotment, subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory;

(iii) the allotment of equity securities pursuant to the terms of any share scheme for employees; and

(iv) the allotment for cash (otherwise than pursuant to paragraphs (i), (ii) or (iii) above) of equity securities up to an aggregate nominal amount of £532,453 (being an amount equivalent to 5 per cent of the issued ordinary share capital of the Company as at the date of the passing of this resolution)

and provided further that this authority shall expire (unless previously revoked or renewed) on the earlier of the date of the next Annual General Meeting of the Company and the end of the period of fifteen months after the date of the passing of this resolution except that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuant of such an offer or agreement as if the power conferred hereby had not expired.

By order of the Board

M D Conway
Secretary
2nd April 1998

Notice of Meeting
continued

Explanation of the resolutions proposed under special business

Resolution 5

The directors consider that it would be appropriate and in the best interests of the Company to seek to renew the authority previously granted to the Company to make market purchases of its ordinary shares on the London Stock Exchange. There may be occasions when, for a variety of reasons, the directors consider that it would be desirable to reduce the issued share capital by purchases in the market. The Board proposes only to exercise the powers of purchase when satisfied that any purchase will have a beneficial impact on the earnings per share and that it is in the interests of all shareholders so to do. The authority being sought is for up to 5,324,527 ordinary shares (representing 10 per cent, of the present issued share capital) at a price which is not more than 5 per cent above the average of the middle market quotations of ordinary shares in the Company on the London Stock Exchange on the five business days prior to the date of purchase and, in any event, not lower than the nominal value of each share (in each case exclusive of any advance corporation tax and expenses). Any shares purchased under this authority will be cancelled. At the close of business on 1st April 1998 the latest practicable date before printing this document, the middle market quotation for ordinary shares of the Company as derived from the Stock Exchange Daily Official List was 130p. The authority proposed in the resolution will expire at the next Annual General Meeting of the Company. The Board intend to seek renewal of the authority at the next Annual General Meeting. Any purchase of the Company's shares would take place within the limits of available reserves.

Resolution 6

This resolution confers authority on the directors to allot for cash equity securities for up to fifteen months from the passing of this resolution:

(i) pursuant to the terms of warrants issued by the Company on 1st December 1997;

(ii) pursuant to a rights issue where exclusions or other arrangements are made to deal with fractions and other legal or practical problems;

(iii) in connection with an employee share scheme; and

(iv) other than pursuant to a rights issue or an employee share scheme, of up to £532,453 in nominal value (representing 5 per cent of the current issued share capital).

Notes:

1. *Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote. A proxy need not be a member of the Company. An instrument appointing a proxy is enclosed with this notice. To be effective, it must be completed and reach the Company's registrars not less than forty-eight hours before the time fixed for the meeting. Completion of a form of proxy does not preclude members from subsequently attending and voting in person at the meeting should they so wish.*
2. *The register of directors' shareholdings and transactions will be available for reference at the commencement of, and during, the meeting.*
3. *Pursuant to regulation 34 of the Uncertified Securities Regulations 1995, the Company specifies that only those shareholders registered in the register of members of the Company as at 6.00pm on 4th May 1998 shall be entitled to attend and vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6.00pm on 4th May 1998 shall be disregarded in determining the rights of any person to attend or vote at the meeting.*

Group Directory

OCKHAM HOLDINGS PLC

Registered in England No. 2998217
Head office and registered office:
Cutler House, 3b Devonshire Square, London EC2M 4YA
Tel: (00 44) 0171 539 3000 Fax: 0171 539 3030
E-mail: head.office@ockham.co.uk

Highway
Head Office: Brentwood
Highway House, 171 Kings Road, Brentwood,
Essex CM14 4EJ
Tel: 01277 263636
Fax: 01277 263651
Contact: Quin Lovis

Branches:

Basildon Office
Kelting House, Southernhay, Basildon,
Essex SS14 1NT
Tel: 01268 532320
Fax: 01268 532318

Ipswich Office
Highway House, 37-43 Fore Street. Ipswich,
Suffolk, IP4 1JL
Tel: 01473 257481
Fax: 01473 257873

Leeds Office
120 Wellington Street,
Leeds LS1 4LT
Tel: 01132 441266
Fax: 01132 424438

Chatham Office
Highway House, 195-203 New Road,
Chatham, Kent ME4 4QB
Tel: 01634 846666
Fax: 01634 827356

Bristol Office
St Brandon's House, 29 Great George Street,
Bristol, Avon BS1 5QT
Tel: 01179 290081
Fax: 01179 255549

Edinburgh Office
21 Lochrin Place,
Edinburgh EH3 5QT
Tel: 01312 292121
Fax: 01312 285482

Stockport Office
Hilton House, Lord Street, Stockport,
Cheshire SK1 3NA
Tel: 01614 290181
Fax: 01614 741684

Wise Speke
Head Office: Newcastle Upon Tyne
Commercial Union House, 39 Pilgrim Street,
Newcastle Upon Tyne NE1 6RQ
Tel: 0191 201 3800
Fax: 0191 201 3801
Contact: Ben Speke

Manchester Office
PO Box 512, National House,
36 St Anne's Street, Manchester M60 2EP
Tel: 0161 839 4222
Fax: 0161 832 9092
Contact: Robert Race

London Office
Cutler House, 3b Devonshire Square,
London EC2M 4YA
Tel: 0171 617 2900
Fax: 0171 617 2901
Contact: Ashley Silverton

Leeds Office
120 Wellington Street,
Leeds LS1 4LT
Tel: 01132 459341
Fax: 01132 459341
Contact: John Wardle

Middlesbrough Office
Erimus House, Queen's Square, Middlesbrough,
Cleveland TS2 1AA
Tel: 01642 248431
Fax: 01642 245921
Contact: William Baker-Baker

Alder Life
11-12 Bury Street,
London EC3A 5AB
Tel: 0171 342 8800
Fax: 0171 342 8850
E-mail: kim.rowley@ockham.co.uk