

CHARLES CONNELL & COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 1997

COMPANY NO. 28024



DIRECTORS

C.R. CONNELL (Chairman)

H.C. DAVIDSON, C.A.

SECRETARY

W.A. FARMER, C.A.

AUDITORS

ALEXANDER SLOAN & CO., C.A.

REGISTERED OFFICE

WOODEND, CRAIGALLIAN, MILNGAVIE, GLASGOW G62 8EN

DIRECTORS' REPORT

The Directors submit their Report and Financial Statements for the year ended 31st December 1997.

REVIEW OF THE BUSINESS

The results for the year are set out in the Profit and Loss Account attached to this Report. No further dividend is recommended.

ACTIVITY

The Company provides management and administration services to Group Trading Companies.

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year and their interests in the Share Capital of the Parent Undertaking, Charles Connell & Company (Holdings) Limited, were as follows:-

		Ordinary Shares of £5 each	6% Preference Shares of £2.50 each
C.R. CONNELL (including wife's shareholding)	At 31.12.97	3,363	78,000
		(Beneficial)	(Beneficial)
		12,013	23,660
	At 31.12.96	(As Trustee)	(As Trustee)
		6,201	78,000
		(Beneficial)	(Beneficial)
H.C. DAVIDSON	At 31.12.97 & 31.12.96	13,360	23,660
		(As Trustee)	(As Trustee)
		NIL	NIL

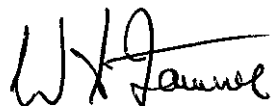
ROTATION OF DIRECTORS

In accordance with the Articles of Association, Mr. C.R. Connell retires by rotation and offers himself for re-election.

AUDITORS

A resolution to re-appoint Alexander Sloan & Co., C.A. as Auditors will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD



W.A. FARMER, C.A.
Secretary

Woodend,
Craigallian,
Milngavie,
Glasgow, G62 8EN

23rd March 1998

YEAR ENDED 31st DECEMBER 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Financial Statements, the Directors are required to:-

- * select suitable accounting policies and then apply them consistently;
- * make judgments and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- * prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that the Financial Statements comply with the above requirements.

CHARLES CONNELL & COMPANY LIMITED

We have audited the Financial Statements on pages 5 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective Responsibilities of Directors and Auditors

As described on page 3, the Company's Directors are responsible for the preparation of Financial Statements. It is our responsibility to form an independent opinion, based on our audit, on those Statements and to report our opinion to you.

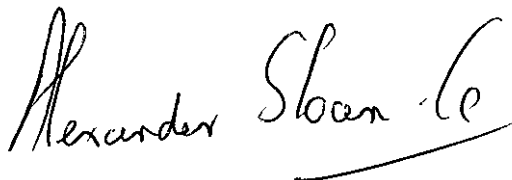
Basis of Opinion

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

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

Opinion

In our opinion the Financial Statements give a true and fair view of the state of the Company's affairs as at 31st December 1997 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, reading "Alexander Sloan" followed by a stylized flourish.

ALEXANDER SLOAN & CO., C.A.
Registered Auditors

GLASGOW, 23rd March 1998

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st DECEMBER 1997

	Notes	1997 £	1996 £
TURNOVER	2	310,470	310,450
Cost of Sales		-	-
Gross Profit		310,470	310,450
Administration Expenses	3	676,968	945,213
Operating (Loss)		(366,498)	(634,763)
Investment Income less Interest Payable	4	543,444	718,363
Profit on ordinary activities before Taxation		176,946	83,600
Taxation	6	(23,432)	(161,705)
Profit on ordinary activities after Taxation		200,378	245,305
Dividends Payable	7	69,148	31,396
Retained Profit for the year		<u>131,230</u>	<u>213,909</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31st DECEMBER 1997

The Company made no recognised gains or losses in the years ended 31st December 1997 or 1996 other than the profit for the year.

BALANCE SHEET

AS AT 31st DECEMBER 1997

	Notes	£	1997 £	£	1996 £
FIXED ASSETS					
Tangible Assets	1 & 8		350,997		364,746
Investment			1		1
			350,998		364,747
CURRENT ASSETS					
Stock	1	1,300		1,000	
Debtors	9	6,963,435		1,959,887	
Investments	10	599,557		4,792,296	
Short Term Deposits		73,372		861,359	
Cash at Bank and in Hand		6,775		5,663	
		7,644,439		7,620,205	
CREDITORS - Amounts falling due within one year	11	303,107		431,531	
NET CURRENT ASSETS			7,341,332		7,188,674
TOTAL ASSETS LESS CURRENT LIABILITIES					
			7,692,330		7,553,421
DEFERRED INCOME	12		36,776		29,097
			<u>7,655,554</u>		<u>7,524,324</u>
CAPITAL AND RESERVES					
Called up Share Capital	13		450,000		450,000
Reserves	14		7,205,554		7,074,324
TOTAL SHAREHOLDERS' FUNDS	17		<u>7,655,554</u>		<u>7,524,324</u>
Equity shareholders' funds			7,205,654		7,074,424
Non-equity shareholders' funds			449,900		449,900
			<u>7,655,554</u>		<u>7,524,324</u>

Signed on behalf of the Board on 23rd March 1998.


C.R. CONNELL
Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st DECEMBER 1997

1. ACCOUNTING POLICIES

- a) The Financial Statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

b) **Stocks**

Stocks have been stated at the lower of cost or net realisable value.

c) **Depreciation**

Freehold property, vehicles, fittings and equipment are depreciated down to their estimated residual values at the end of their useful lives. The estimated useful lives of the assets are as follows:-

Freehold Property	-	50 years
Vehicles, Fittings and Equipment	-	5 to 10 years

Short leasehold property is depreciated over the period of the lease.

In the case of Land no depreciation is provided. The Company's long leasehold London property has not been depreciated as required by SSAP 12 as in the opinion of the Directors the value of the property has appreciated substantially and the property is maintained to a high standard.

d) **Foreign Currencies**

Transactions in foreign currencies during the year are converted partly at the rate ruling at the date of the transaction and at the rate ruling at 31st December 1997. Assets and liabilities in foreign currencies are also converted at the rate ruling at the date of the transaction.

e) **Pension Scheme**

Contributions to the Group's pension scheme are charged to the Profit and Loss Account so as to spread the cost of pensions over employees' service lives with the Company.

2. TURNOVER

Turnover represents management charges earned by the Company in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1997

3. ADMINISTRATION EXPENSES	1997 £	1996 £
Comprises:-		
Directors' Remuneration (excluding benefits)	327,651	563,219
Auditors' Remuneration	4,850	4,700
Depreciation	17,056	18,889
Other Expenses	327,411	358,405
	<u>676,968</u>	<u>945,213</u>
Directors' Remuneration For Executive Services	<u>391,858</u>	<u>626,443</u>
Emoluments of the Chairman and Highest Paid Director (excluding Pension Contributions)	<u>378,005</u>	<u>505,491</u>
4. INVESTMENT INCOME LESS INTEREST PAYABLE		
Dividends Receivable - Listed	83,362	112,535
Interest Receivable - Other	24,965	36,563
Interest Receivable from Group Undertakings	-	929
Gains on Sales of Investments	436,512	594,022
Gain/(Loss) on Exchange	12,835	(17,268)
	<u>557,674</u>	<u>726,781</u>
Interest payable on Bank Overdraft	(118)	(615)
Interest payable on Group Balances	(14,112)	(7,803)
	<u>543,444</u>	<u>718,363</u>
5. EMPLOYEES		
The average weekly number of employees (excluding non-Executive Directors) during the year was made up as follows:-	Number	Number
Management and Administration	<u>7</u>	<u>8</u>
Staff Costs for the above employees during the year amounted to:-	£	£
Wages and Salaries	472,084	595,675
Social Security Costs	48,039	60,963
Other Pension Costs	21,532	128,142
	<u>541,655</u>	<u>784,780</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1997

6. TAXATION

	1997 £	1996 £
The credit for the year comprises:-		
Current Year		
Corporation Tax at 31.5%	5,674	-
Overseas Tax	871	2,834
Advance Corporation Tax	10,567	8,070
Group Relief	(35,000)	(172,500)
Prior Year		
Corporation Tax at 33%	-	(133)
Group Relief	(5,544)	24
	<u>(23,432)</u>	<u>(161,705)</u>

7. DIVIDENDS

Preference paid 30th June 1997	9,448	18,896
Interim Ordinary paid 23rd June 1997	37,000	12,500
Second Interim Ordinary paid 1st July 1997	22,700	-
	<u>69,148</u>	<u>31,396</u>

8. TANGIBLE FIXED ASSETS

	Land and Buildings			Vehicles Fittings and Equipment	Total
	Freehold £	Long Leasehold £	Short Leasehold £	£	£
Cost					
At 1.1.97	206,337	127,178	37,851	144,986	516,352
Additions	-	-	-	3,307	3,307
	<u>206,337</u>	<u>127,178</u>	<u>37,851</u>	<u>148,293</u>	<u>519,659</u>
Aggregate Depreciation					
At 1.1.97	24,756	-	26,495	100,355	151,606
Charge for Year	4,126	-	3,785	9,145	17,056
	<u>28,882</u>	<u>-</u>	<u>30,280</u>	<u>109,500</u>	<u>168,662</u>
Net Book Values					
At 31.12.97	<u>177,455</u>	<u>127,178</u>	<u>7,571</u>	<u>38,793</u>	<u>350,997</u>
At 31.12.96	<u>181,581</u>	<u>127,178</u>	<u>11,356</u>	<u>44,631</u>	<u>364,746</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1997

	1997 £	1996 £
9. DEBTORS		
Taxation Recoverable	1,341	9,274
Other Debtors	-	118,057
Prepayments and Accrued Income	9,191	10,035
Amounts owed by Group Undertakings	6,952,903	1,822,521
	<u>6,963,435</u>	<u>1,959,887</u>
10. INVESTMENTS		
Listed at Cost (Market Value - £542,622, 1996 - £4,857,370)	559,557	4,752,296
Unlisted at Cost (Directors' Valuation - £67,200, 1996 - £40,000)	40,000	40,000
	<u>599,557</u>	<u>4,792,296</u>
11. CREDITORS - Amounts falling due within one year:-		
Bank Overdraft	-	4,530
Other Creditors	1,130	5,830
Current Taxation	4,500	-
Other Taxes and Social Security	12,487	40,076
Accruals and Deferred Income	11,561	271,949
Amounts owed to Group Undertakings	273,429	109,146
	<u>303,107</u>	<u>431,531</u>
12. DEFERRED INCOME		
Pension Scheme		
As at 1st January 1997	29,097	21,920
Transfer from Profit and Loss Account	7,679	7,177
	<u>36,776</u>	<u>29,097</u>
As at 31st December 1997		
13. CALLED UP SHARE CAPITAL		
Authorised	<u>450,400</u>	<u>450,400</u>
Allotted, Issued and Fully Paid		
100 Ordinary Shares of £1 each	100	100
449,900 4.2% (formerly 6%) Non-Cumulative Preference Shares of £1 each	449,900	449,900
	<u>450,000</u>	<u>450,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1997

14. RESERVES	Capital Redemption Reserve Fund £	Revenue Reserve £	Profit and Loss Account £	Total £
At 1st January 1997	400	475,695	6,598,229	7,074,324
Profit for year	-	-	131,230	131,230
At 31st December 1997	<u>400</u>	<u>475,695</u>	<u>6,729,459</u>	<u>7,205,554</u>

15. PARENT UNDERTAKING

The Company's Parent Undertaking is Charles Connell & Company (Holdings) Limited, registered in Scotland.

16. PENSION SCHEME

The Company participates in the Group's staff pension scheme which provides benefits payable to members and their dependents on a defined benefit basis. All contributions are invested in a group deferred annuity contract with an insurance company.

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1st January 1997. The major assumptions used are those relating to the rate of return on investments (8½% per annum) and the rate of increase in salaries (6½% per annum). The actuarial valuation showed a surplus of the scheme's assets over the benefits accruing to members. Part of this surplus has been allocated to finance the improvements in benefits for Limited Price Indexation required by the Pensions Act 1995 and increases in existing pensions. The balance of the surplus has been used to finance a three year partial holiday in the employers contributions.

The pension cost charged in the Profit and Loss Account amounted to £7,679 (1996 - £7,177). This is an estimate of one year's cost in accordance with SSAP 24. A corresponding credit has been made to deferred income.

In addition, the Company also operates a defined contribution scheme for the benefit of a Director. The employers contribution for the year was £13,853 (1996 - £120,952).

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	1997 £	1996 £
Retained Profit for the year	<u>131,230</u>	<u>213,909</u>
Net Increase in Shareholders' Funds	131,230	213,909
Opening Shareholders' Funds	7,524,324	7,310,415
Closing Shareholders' Funds	<u>7,655,554</u>	<u>7,524,324</u>