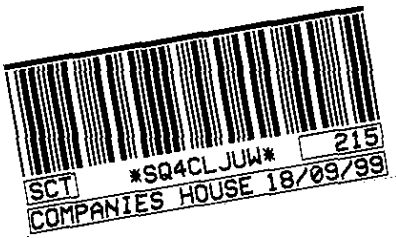
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CHARLES CONNELL & COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st DECEMBER 1998

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 1998.

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 and writes call options.

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 31.12.98 & 31.12.97	3,363 (Beneficial)	78,000 (Beneficial)
		12,013 (As Trustee)	23,660 (As Trustee)
H.C. DAVIDSON	At 31.12.98 & 31.12.97	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

28th May 1999

YEAR ENDED 31st DECEMBER 1998

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

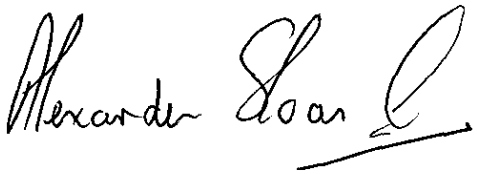
We have audited the Financial Statements on pages 5 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

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 1998 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

GLASGOW, 28th May 1999

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st DECEMBER 1998

	Notes	1998 £	1997 £
TURNOVER	2	522,487	310,470
Cost of Sales		23,006	-
Gross Profit		499,481	310,470
Administration Expenses	3	770,321	676,968
Operating (Loss)		(270,840)	(366,498)
Other Operating Income	4	158	-
		(270,682)	(366,498)
Investment Income less Interest Payable	5	50,639	543,444
(Loss)/Profit on ordinary activities before Taxation		(220,043)	176,946
Taxation	7	(88,766)	(23,432)
(Loss)/Profit on ordinary activities after Taxation		(131,277)	200,378
Dividends Payable	8	66,896	69,148
Retained (Loss)/Profit for the year		**(198,173)**	**131,230**

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31st DECEMBER 1998

The Company made no recognised gains or losses in the years ended 31st December 1998 or 1997 other than the (loss)/profit for the year.

BALANCE SHEET

AS AT 31st DECEMBER 1998

	Notes	£	1998 £	£	1997 £
FIXED ASSETS					
Tangible Assets	1 & 9		344,429		350,997
Investment			1		1
			344,430		350,998
CURRENT ASSETS					
Stock	1	2,300		1,300	
Debtors	10	5,295,777		6,963,435	
Investments	11	2,152,540		599,557	
Short Term Deposits		74,159		73,372	
Cash at Bank and in Hand		10,202		6,775	
		7,534,978		7,644,439	
CREDITORS - Amounts falling due within one year	12	422,027		303,107	
NET CURRENT ASSETS			7,112,951		7,341,332
TOTAL ASSETS LESS CURRENT LIABILITIES			7,457,381		7,692,330
DEFERRED INCOME	13		-		36,776
			7,457,381		7,655,554
CAPITAL AND RESERVES					
Called up Share Capital	14		450,000		450,000
Reserves	15		7,007,381		7,205,554
TOTAL SHAREHOLDERS' FUNDS	16		7,457,381		7,655,554
Equity shareholders' funds			7,007,481		7,205,654
Non-equity shareholders' funds			449,900		449,900
			7,457,381		7,655,554

Signed on behalf of the Board on 28th May 1999

C.R. CONNELL
Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st DECEMBER 1998

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 1998. 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 call option business written plus management charges earned by the Company in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1998

3. ADMINISTRATION EXPENSES	1998	1997
	£	£
Comprises:-		
Directors' Remuneration (excluding benefits)	441,427	327,651
Auditors' Remuneration	4,850	4,850
Depreciation	16,586	17,056
Other Expenses	307,458	327,411
	770,321	676,968
Directors' Remuneration		
For Executive Services	441,427	391,858
Emoluments of the Highest Paid Director (excluding Pension Contributions)	493,777	378,005

4. OTHER OPERATING INCOME		
Gain on Sale of Fixed Assets	158	-

5. INVESTMENT INCOME LESS INTEREST PAYABLE		
Dividends Receivable - Listed	66,500	83,362
Interest Receivable - Other	9,236	24,965
(Losses)/Gains on Sales of Investments	(24,954)	436,512
(Loss)/Gain on Exchange	(64)	12,835
	50,718	557,674
Interest payable on Bank Overdraft	(79)	(118)
Interest payable on Group Balances	-	(14,112)
	50,639	543,444

6. EMPLOYEES		
The average weekly number of employees (excluding non-Executive Directors) during the year was made up as follows:-	Number	Number
Management and Administration	7	7
Staff Costs for the above employees during the year amounted to:-	£	£
Wages and Salaries	591,652	472,084
Social Security Costs	64,630	48,039
Other Pension Costs	16,027	21,532
	672,309	541,655

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1998

7. TAXATION

	1998	1997
	£	£
The credit for the year comprises:-		
Current Year		
Corporation Tax at 31.5%	-	5,674
Overseas Tax	-	871
Advance Corporation Tax	7,336	10,567
Group Relief	(95,000)	(35,000)
Prior Year		
Corporation Tax at 31.5%	(4,500)	-
Group Relief	3,398	(5,544)
	(88,766)	**(23,432)**

8. DIVIDENDS

Preference paid 30th June 1998	9,448	9,448
Preference paid 22nd December 1998	9,448	-
Interim Ordinary paid 7th April 1998	800	37,000
Second Interim Ordinary paid 22nd December 1998	47,200	22,700
	66,896	**69,148**

9. TANGIBLE FIXED ASSETS

	Land and Buildings			Vehicles Fittings and	
	Freehold	Long Leasehold	Short Leasehold	Equipment	Total
	£	£	£	£	£
Cost					
At 1.1.98	206,337	127,178	37,851	148,293	519,659
Additions	-	-	-	10,460	10,460
Disposals	-	-	-	(6,565)	(6,565)
At 31.12.98	**206,337**	**127,178**	**37,851**	**152,188**	**523,554**
Aggregate Depreciation					
At 1.1.98	28,882	-	30,280	109,500	168,662
Charge for Year	4,126	-	3,785	8,675	16,586
On Disposals	-	-	-	(6,123)	(6,123)
At 31.12.98	**33,008**	**-**	**34,065**	**112,052**	**179,125**
Net Book Values					
At 31.12.98	**173,329**	**127,178**	**3,786**	**40,136**	**344,429**
At 31.12.97	**177,455**	**127,178**	**7,571**	**38,793**	**350,997**

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1998

10. DEBTORS	1998 £	1997 £
Taxation Recoverable	-	1,341
Other Debtors	426	-
Prepayments and Accrued Income	10,581	9,191
Amounts owed by Group Undertakings	5,284,770	6,952,903
	5,295,777	**6,963,435**

11. INVESTMENTS		
Listed at Cost (Market Value - £2,328,728, 1997 - £542,622)	2,112,540	559,557
Unlisted at Cost (Directors' Valuation - £126,000, 1997 - £67,200)	40,000	40,000
	2,152,540	**599,557**

12. CREDITORS - Amounts falling due within one year:-		
Other Creditors	4,059	1,130
Current Taxation	60	4,500
Other Taxes and Social Security	40,097	12,487
Accruals and Deferred Income	257,021	11,561
Amounts owed to Group Undertakings	120,790	273,429
	422,027	**303,107**

13. DEFERRED INCOME		
Pension Scheme		
As at 1st January 1998	36,776	29,097
Transfer (to)/from Profit and Loss Account	(36,776)	7,679
As at 31st December 1998	-	**36,776**

14. CALLED UP SHARE CAPITAL		
Authorised	**450,400**	**450,400**
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
	450,000	**450,000**

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1998

14. CALLED UP SHARE CAPITAL (Contd.)

Preference Shares

The non-cumulative preference shares are non-equity shares which carry an entitlement to a dividend at a rate of 4.2p (net) per annum. The preference shares shall not confer the right to receive notice of or to be present or to vote either in person or by proxy at a General Meeting of the Company.

15. RESERVES

	Capital Redemption Reserve Fund £	Revenue Reserve £	Profit and Loss Account £	Total £
At 1st January 1998	400	475,695	6,729,459	7,205,554
(Loss) for year	-	-	(198,173)	(198,173)
At 31st December 1998	**400**	**475,695**	**6,531,286**	**7,007,381**

16. PARENT UNDERTAKING

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

17. 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 credited/charged in the Profit and Loss Account amounted to £(36,776) (1997 - £7,679). The deferred income has been released to the Profit and Loss Account as the pension scheme is being wound up.

In addition, the Company also operates a defined contribution scheme for the benefit of a Director. The employers contribution for the year was £11,202 (1997 - £13,853).

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 1998

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	1998 £	1997 £
Retained (Loss)/Profit for the year	(198,173)	131,230
Net (Decrease)/Increase in Shareholders' Funds	(198,173)	131,230
Opening Shareholders' Funds	7,655,554	7,524,324
Closing Shareholders' Funds	7,457,381	7,655,554

19. **TRANSACTIONS WITH RELATED PARTIES**

As a wholly owned subsidiary of Charles Connell & Co. (Holdings) Ltd., the Company is exempt from the requirements of FRS 8 to disclose transactions with other group members.

20. OPERATING LEASE COMMITMENTS	1998 Land & Buildings £	1997 Land & Buildings £
In one year or less	8,333	7,917