

CHARLES CONNELL & COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2002

COMPANY NO. 28024



DIRECTORS

C.R. CONNELL (Chairman)

H.C. DAVIDSON, C.A.

SECRETARY

H.C. DAVIDSON, C.A.

AUDITORS

ALEXANDER SLOAN
Chartered Accountants

REGISTERED OFFICE

WOODEND,
CRAIGALLIAN,
MILNGAVIE,
GLASGOW G62 8EN

DIRECTORS' REPORT

The Directors submit their Report and Financial Statements for the year ended 31st December 2002.

REVIEW OF THE BUSINESS

The results for the year are set out in the Profit and Loss Account attached to this Report.

ACTIVITY

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

FIXED ASSETS

In the opinion of the Directors, the market value at 31st December 2002 of the Company's Land and Buildings exceeds the Balance Sheet value by at least £500,000.

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 31.12.02 & 31.12.01	2,363 (Beneficial) 13,013 (As Trustee)	78,000 (Beneficial) 15,560 (As Trustee)
H.C. DAVIDSON	At 31.12.02 & 31.12.01	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, Chartered Accountants, as Auditors will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD



H.C. DAVIDSON, C.A.
Secretary

Woodend,
Craigallan,
Milngavie,
Glasgow, G62 8EN

24th March 2003

YEAR ENDED 31st DECEMBER 2002

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 of Charles Connell & Company Limited for the year ended 31st December 2002 on pages 5 to 12. These Financial Statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and consider the implications for our Report if we become aware of any apparent misstatements within it.

Basis of Opinion

We conducted our audit in accordance with United Kingdom 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 2002 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**ALEXANDER SLOAN**

Chartered Accountants

Registered Auditors

GLASGOW, 24th March 2003

PROFIT AND LOSS ACCOUNT**FOR THE YEAR ENDED 31st DECEMBER 2002**

	Notes	2002 £	2001 £
TURNOVER	2	260,070	283,378
Cost of Sales		(130,026)	(75,401)
Gross Profit		130,044	207,977
Administration Expenses	3	(513,647)	(544,117)
		(383,603)	(336,140)
Other Operating Income	4	1,500	-
		(382,103)	(336,140)
Other Operating Costs	5	-	(782)
Operating (Loss)		(382,103)	(336,922)
Investment Income less Interest Payable	6	(676,719)	423,558
(Loss)/Profit on ordinary activities before Taxation		(1,058,822)	86,636
Taxation	8	127,844	(22,009)
Retained (Loss)/Profit for the year	17	<u>(930,978)</u>	<u>64,627</u>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31st DECEMBER 2002**

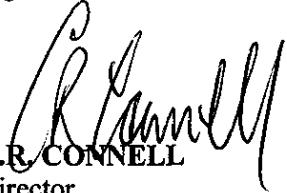
The Company made no recognised gains or losses in the years ended 31st December 2002 or 2001 other than the (loss)/profit for the year.

BALANCE SHEET

AS AT 31st DECEMBER 2002

	Notes	£	2002 £	£	2001 £
FIXED ASSETS					
Tangible Assets	1 & 9		310,083		320,445
Investment			1		1
			310,084		320,446
CURRENT ASSETS					
Stock	1	1,700		2,500	
Debtors	10	698,004		2,301,550	
Investments	11	2,563,978		3,849,026	
Short Term Deposits		1,985,026		100,739	
Cash at Bank and in Hand		37,191		4,767	
			5,285,899	6,258,582	
CREDITORS - Amounts falling due within one year	12	(126,100)		(178,167)	
NET CURRENT ASSETS			5,159,799		6,080,415
TOTAL ASSETS LESS CURRENT LIABILITIES					
			<u>5,469,883</u>		<u>6,400,861</u>
CAPITAL AND RESERVES					
Called up Share Capital	13		450,000		450,000
Reserves	14		5,019,883		5,950,861
TOTAL SHAREHOLDERS' FUNDS	17		<u>5,469,883</u>		<u>6,400,861</u>
Equity shareholders' funds			5,019,983		5,950,961
Non-equity shareholders' funds			449,900		449,900
			<u>5,469,883</u>		<u>6,400,861</u>

Signed on behalf of the Board on 24th March 2003


C.R. CONNELL
 Director

NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31st DECEMBER 2002****1. ACCOUNTING POLICIES**

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

b) **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 FRS15. The Directors consider that no depreciation is required on the long leasehold property as it has a long useful life and accordingly any depreciation charge would be immaterial. The Directors have also carried out an impairment review on the long leasehold property and they are satisfied that no adjustment is required to the carrying value.

c) **Stocks**

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

d) **Investments**

Investments are valued at the lower of cost and net realisable value.

e) **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 2002. Assets and liabilities in foreign currencies are also converted at the rate ruling at the date of the transaction.

f) **Pensions**

The Company operates a defined contribution pension scheme. Contributions are charged in the Profit and Loss Account as they become payable.

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 2002

3. ADMINISTRATION EXPENSES	2002	2001
	£	£
Comprises:-		
Directors' Remuneration (excluding benefits)	225,000	229,700
Auditors' Remuneration	6,100	5,800
Depreciation	10,362	12,378
Other Expenses	272,185	296,239
	<u>513,647</u>	<u>544,117</u>
Directors' Remuneration		
For Executive Services	<u>225,000</u>	<u>229,700</u>
Emoluments of the Highest Paid Director (excluding Pension Contributions)	<u>283,204</u>	<u>295,127</u>
4. OTHER OPERATING INCOME		
Gain on Sale of Fixed Assets	<u>1,500</u>	<u>-</u>
5. OTHER OPERATING COSTS		
(Loss) on Sale of Fixed Assets	<u>-</u>	<u>(782)</u>
6. INVESTMENT INCOME LESS INTEREST PAYABLE		
Dividends Receivable - Listed	125,977	115,810
Interest Receivable - Other	17,190	7,814
(Losses)/Gains on Sales of Investments	(62,925)	427,179
Provision for Diminution in value of Investments	(758,175)	(127,079)
Currency Gain/(Loss)	1,217	(144)
	<u>(676,716)</u>	<u>423,580</u>
Interest payable on Bank Overdraft	(3)	(22)
	<u>(676,719)</u>	<u>423,558</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2002

7. EMPLOYEES	2002	2001
The average weekly number of employees (excluding non-Executive Directors) during the year was made up as follows:-	Number	Number
Management and Administration	<u>5</u>	<u>5</u>
Staff Costs for the above employees during the year amounted to:-	£	£
Wages and Salaries	352,436	360,575
Social Security Costs	40,191	43,444
Other Pension Costs	6,968	6,909
	<u>399,595</u>	<u>410,928</u>
 8. TAXATION		
The charge for the year comprises:-		
Current Year		
Group Relief	(128,000)	22,000
Prior Year		
Corporation Tax	1,534	9
Group Relief	(1,378)	-
	<u>(127,844)</u>	<u>22,009</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2002

9. TANGIBLE FIXED ASSETS

	Land and Buildings			Vehicles Fittings and Equipment	Total
	Freehold £	Long Leasehold £	Short Leasehold £	£	£
Cost					
At 1 st January 2002	206,337	127,178	37,851	123,867	495,233
Disposals	-	-	-	(32,044)	(32,044)
At 31 st December 2002	<u>206,337</u>	<u>127,178</u>	<u>37,851</u>	<u>91,823</u>	<u>463,189</u>
Aggregate Depreciation					
At 1 st January 2002	45,386	-	37,851	91,551	174,788
Charge for Year	4,126	-	-	6,236	10,362
On Disposals	-	-	-	(32,044)	(32,044)
At 31 st December 2002	<u>49,512</u>	<u>-</u>	<u>37,851</u>	<u>65,743</u>	<u>153,106</u>
Net Book Values					
At 31 st December 2002	<u>156,825</u>	<u>127,178</u>	<u>-</u>	<u>26,080</u>	<u>310,083</u>
At 31 st December 2001	<u>160,951</u>	<u>127,178</u>	<u>-</u>	<u>32,316</u>	<u>320,445</u>

10. DEBTORS

	2002 £	2001 £
Other Debtors	835	1,927
Prepayments and Accrued Income	10,099	10,038
Amounts owed by Group Undertakings	687,070	2,289,585
	<u>698,004</u>	<u>2,301,550</u>

11. INVESTMENTS

Listed Investments (Market Value - £2,706,418, 2001 - £3,849,026)	<u>2,563,978</u>	<u>3,849,026</u>
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12. CREDITORS - Amounts falling due within one year:-

Other Creditors	2,442	7,117
Other Taxes and Social Security	31,774	34,641
Accruals and Deferred Income	13,570	18,694
Amounts owed to Group Undertakings	78,314	117,715
	<u>126,100</u>	<u>178,167</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2002

13. CALLED UP SHARE CAPITAL	2002 £	2001 £
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>

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.

14. RESERVES	Capital Redemption Reserve Fund £	Revenue Reserve £	Profit and Loss Account £	Total £
At 1st January 2002	400	475,695	5,474,766	5,950,861
(Loss) for year	-	-	(930,978)	(930,978)
	<u>400</u>	<u>475,695</u>	<u>4,543,788</u>	<u>5,019,883</u>
At 31st December 2002	<u>400</u>	<u>475,695</u>	<u>4,543,788</u>	<u>5,019,883</u>

15. PARENT UNDERTAKING

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

16. PENSION SCHEME

The Company operates a defined contribution scheme for the benefit of a Director. The employers contribution for the year was £6,000 (2001 - £6,000).

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2002

	2002 £	2001 £
17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS		
Retained (Loss)/Profit for the year	(930,978)	64,627
Net (Decrease)/Increase in Shareholders' Funds	(930,978)	64,627
Opening Shareholders' Funds	6,400,861	6,336,234
Closing Shareholders' Funds	<u>5,469,883</u>	<u>6,400,861</u>

18. 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.

	2002 Land & Buildings £	2001 Land & Buildings £
19. OPERATING LEASE COMMITMENTS		
In one year or less	<u>10,000</u>	<u>10,000</u>