

CHARLES CONNELL & COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2003

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 2003.

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, writes call options and holds investments.

FIXED ASSETS

In the opinion of the Directors, the market value at 31st December 2003 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 31.12.03 & 31.12.02	2,363 (Beneficial) 13,013 (As Trustee)	78,000 (Beneficial) 15,560 (As Trustee)
H.C. DAVIDSON	At 31.12.03 & 31.12.02	NIL	NIL

ROTATION OF DIRECTORS

In accordance with the Articles of Association, Mr H C Davidson 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

29th March 2004

YEAR ENDED 31st DECEMBER 2003

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 2003 on pages 5 to 12. These Financial Statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 2003 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, 29th March 2004

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st DECEMBER 2003

	Notes	2003 £	As Restated 2002 £
TURNOVER	2	144,837	260,070
Cost of Sales		(21,991)	(130,026)
Gross Profit		122,846	130,044
Administration Expenses	3	(534,991)	(513,647)
		(412,145)	(383,603)
Other Operating Income	4	-	1,500
		(412,145)	(382,103)
Other Operating Costs	5	(355)	-
Operating (Loss)		(412,500)	(382,103)
Investment Income less Interest Payable	6	673,565	(534,279)
Profit/(Loss) on ordinary activities before Taxation		261,065	(916,382)
Taxation	8	32,698	127,844
Retained Profit/(Loss) for the year		<u>293,763</u>	<u>(788,538)</u>

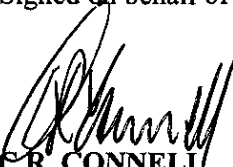
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31st DECEMBER 2003

		2003 £	As Restated 2002 £
Profit/(Loss) for the Financial Year		293,763	<u>(788,538)</u>
Prior year adjustment	20	142,440	
Total Gains and Loss Recognised since last Financial Accounts		<u>436,203</u>	

BALANCE SHEET

AS AT 31st DECEMBER 2003

	Notes	£	2003 £	As Restated 2002 £
FIXED ASSETS				
Tangible Assets	1 & 9		303,353	310,083
Investments	10		9,464,361	2,706,419
			9,767,714	3,016,502
CURRENT ASSETS				
Stock	1	1,950		1,700
Debtors	11	17,338		698,004
Short Term Deposits		6,421,746		1,985,026
Cash at Bank and in Hand		244		37,191
		6,441,278		2,721,921
CREDITORS - Amounts falling due within one year	12	(10,302,906)		(126,100)
NET CURRENT (LIABILITIES)/ASSETS			(3,861,628)	2,595,821
TOTAL ASSETS LESS CURRENT LIABILITIES				
			<u>5,906,086</u>	<u>5,612,323</u>
CAPITAL AND RESERVES				
Called up Share Capital	13		450,000	450,000
Reserves	14		5,456,086	5,162,323
TOTAL SHAREHOLDERS' FUNDS	15		<u>5,906,086</u>	<u>5,612,323</u>
Equity shareholders' funds			5,456,186	5,162,423
Non-equity shareholders' funds			449,900	449,900
			<u>5,906,086</u>	<u>5,612,323</u>

Signed on behalf of the Board on 29th March 2004.

C.R. CONNELL
 Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st DECEMBER 2003

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	-	3 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**

Listed Investments are shown at the aggregate of current market valuation. Upward revaluations are credited to the revaluation reserve. Downward revaluations in excess of any previous upward revaluation are taken to the Profit and Loss Accounts.

Other Fixed Asset Investments are shown at cost.

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 2003. 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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2003

2. TURNOVER

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

3. ADMINISTRATION EXPENSES	2003 £	2002 £
Comprises:-		
Directors' Remuneration (excluding benefits)	225,000	225,000
Auditors' Remuneration	7,520	6,100
Depreciation	10,868	10,362
Other Expenses	291,603	272,185
	<u>534,991</u>	<u>513,647</u>
 Directors' Remuneration For Executive Services	 <u>225,000</u>	 <u>225,000</u>
 Emoluments of the Highest Paid Director (excluding Pension Contributions)	 <u>276,197</u>	 <u>283,204</u>
 4. OTHER OPERATING INCOME		
Gain on Sale of Fixed Assets	<u>-</u>	<u>1,500</u>
 5. OTHER OPERATING COSTS		
Loss on Sale of Fixed Assets	<u>(355)</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2003

6. INVESTMENT INCOME LESS INTEREST PAYABLE	2003	As Restated 2002
	£	£
Dividends Receivable - Listed	124,633	125,977
Interest Receivable - Other	234,502	17,190
(Losses) on Sales of Investments	(28,030)	(62,925)
Increase/(Decrease) in value of Investments	348,152	(615,735)
Currency Gain	456	1,217
Deficit on Loan Relationships	(5,974)	-
	673,739	(534,276)
Interest - Bank Overdraft	(50)	(3)
- Other	(124)	-
	<u>673,565</u>	<u>(534,279)</u>
7. EMPLOYEES	2003	2002
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	350,081	352,436
Social Security Costs	41,659	40,191
Other Pension Costs	15,063	6,968
	<u>406,803</u>	<u>399,595</u>
8. TAXATION		
The charge for the year comprises:-		
Current Year		
Overseas Tax	79	-
Group Relief	(48,787)	(128,000)
Prior Year		
Corporation Tax	-	1,534
Group Relief	16,010	(1,378)
	<u>(32,698)</u>	<u>(127,844)</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2003

9. TANGIBLE FIXED ASSETS

	Land and Buildings			Vehicles Fittings and Equipment	Total
	Freehold £	Long Leasehold £	Short Leasehold £	£	£
Cost					
At 1 st January 2003	206,337	127,178	37,851	91,823	463,189
Additions	-	-	-	4,748	4,748
Disposals	-	-	-	(4,117)	(4,117)
At 31 st December 2003	<u>206,337</u>	<u>127,178</u>	<u>37,851</u>	<u>92,454</u>	<u>463,820</u>
Aggregate Depreciation					
At 1 st January 2003	49,512	-	37,851	65,743	153,106
Charge for Year	4,126	-	-	6,742	10,868
On Disposals	-	-	-	(3,507)	(3,507)
At 31 st December 2003	<u>53,638</u>	<u>-</u>	<u>37,851</u>	<u>68,978</u>	<u>160,467</u>
Net Book Values					
At 31 st December 2003	<u>152,699</u>	<u>127,178</u>	<u>-</u>	<u>23,476</u>	<u>303,353</u>
At 31 st December 2002	<u>156,825</u>	<u>127,178</u>	<u>-</u>	<u>26,080</u>	<u>310,083</u>

10. INVESTMENTS (As Restated)

	Listed £	Unlisted £	Total £
Cost			
At 1 st January 2003	3,449,232	1	3,449,233
Additions	267,813	-	267,813
Disposals	(268,250)	-	(268,250)
Transfers Intra Group	6,410,227	-	6,410,227
As at 31 st December 2003	<u>9,859,022</u>	<u>1</u>	<u>9,859,023</u>
Valuation Adjustment			
As at 1 st January 2003	(742,814)	-	(742,814)
Increase in Value	348,152	-	348,152
As at 31 st December 2003	<u>(394,662)</u>	<u>-</u>	<u>(394,662)</u>
Net Value			
As at 31 st December 2003	<u>9,464,360</u>	<u>1</u>	<u>9,464,361</u>
As at 31 st December 2002	<u>2,706,418</u>	<u>1</u>	<u>2,706,419</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2003

11. DEBTORS	2003	2002
	£	£
Taxation Recoverable	65	-
Other Debtors	414	835
Prepayments and Accrued Income	16,859	10,099
Amounts owed by Group Undertakings	-	687,070
	<u>17,338</u>	<u>698,004</u>
12. CREDITORS - Amounts falling due within one year:-		
Other Creditors	1,787	2,442
Other Taxes and Social Security	44,031	31,774
Accruals and Deferred Income	26,174	13,570
Amounts owed to Group Undertakings	10,230,914	78,314
	<u>10,302,906</u>	<u>126,100</u>
13. CALLED UP SHARE CAPITAL	2003	2002
	£	£
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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2003

14. RESERVES

	Capital Redemption Reserve Fund £	Revenue Reserve £	Profit and Loss Account £	Total £
At 1st January 2003 (As restated)	400	475,695	4,686,228	5,162,323
Profit for year	-	-	293,763	293,763
At 31st December 2003	<u>400</u>	<u>475,695</u>	<u>4,979,991</u>	<u>5,456,086</u>

	2003 £	As Restated 2002 £
15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS		
Retained Profit/(Loss) for the year	<u>293,763</u>	<u>(788,538)</u>
Net Increase/(Decrease) in Shareholders' Funds	293,763	(788,538)
Opening Shareholders' Funds	5,612,323	6,400,861
Closing Shareholders' Funds	<u>5,906,086</u>	<u>5,612,323</u>

16. PARENT UNDERTAKING

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

17. PENSION SCHEME

The Company operates a defined contribution scheme for the benefit of a Director. The employers contribution for the year was £14,000 (2002 - £6,000).

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.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2003

19. OPERATING LEASE COMMITMENTS

	2003	2002
	Land &	Land &
	Buildings	Buildings
	£	£
In one year or less	<u>10,000</u>	<u>10,000</u>

20. PRIOR YEAR ADJUSTMENT

During the year the Company changed its accounting policy in respect of its investments by reclassifying them as fixed assets, instead of current assets. As a result of this the previous year's figures have been restated, where appropriate.

The effect of this adjustment has been an increase in the opening reserves of £142,440.