

REC

CHARLES CONNELL & COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st DECEMBER 2005

COMPANY NO. 28024



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22/08/2006

DIRECTORS

C R CONNELL (Chairman)

H C DAVIDSON, C.A.

MRS T V A CONNELL (Appointed 10th January 2005)

SECRETARY

I F BROWN 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 2005

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 holds investments and writes call options

FIXED ASSETS

In the opinion of the Directors, the market value at 31st December 2005 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	At 31 12.05	2,363	77,100
		(Beneficial)	(Beneficial)
		13,013	36,376
		(As Trustee)	(As Trustee)
	At 31.12.04	2,363	78,000
		(Beneficial)	(Beneficial)
		13,013	36,376
		(As Trustee)	(As Trustee)
MRS. T.V.A. CONNELL	At 31.12.05	NIL	900
	& at Date of	(Beneficial)	(Beneficial)
	Appointment	5,138	14,500
		(As Trustee)	(As Trustee)
H.C. DAVIDSON	At 31.12.05		
	& 31.12 04	NIL	NIL

Mrs T.V.A Connell was appointed a Director of the Company on 10th January 2005.

ROTATION OF DIRECTORS

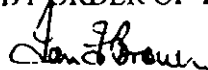
In accordance with the Articles of Association, Mr C R Connell retires by rotation and offers himself for re-election.

DIRECTORS' REPORT (Contd)

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



I F BROWN, C A
Secretary

Woodend,
Craigallan,
Mingavie,
Glasgow, G62 8EN

Date: 24th March 2006

YEAR ENDED 31st DECEMBER 2005

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 2005 on pages 6 to 14. These Financial Statements have been prepared under the historical cost convention as modified for the revaluation of Fixed Asset Investments 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 (United Kingdom Generally Accepted Accounting Practice)

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

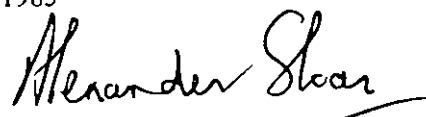
Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31st December 2005 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 2006

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st DECEMBER 2005

	Notes	2005 £	2004 £
TURNOVER	2	1,520	1,542
Administration Expenses	3	(1,676,580)	(589,751)
		(1,675,060)	(588,209)
Other Operating Income	4	-	2,931
Other Operating Costs	5	(23,274)	-
Operating (Loss)		(1,698,334)	(585,278)
Investment Income less Interest Payable	6	853,236	459,824
(Loss) on ordinary activities before Taxation		(845,098)	(125,454)
Taxation	8	1,482	61,645
Retained (Loss) for the year		<u>(843,616)</u>	<u>(63,809)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31st DECEMBER 2005

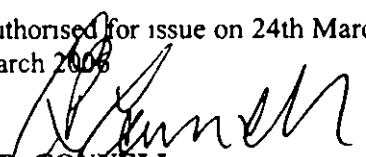
	£	£
(Loss) for the Financial Year	(843,616)	(63,809)
Increase on Value of Investments	1,534,979	723,604
Total Gains and Loss Recognised since last Financial Accounts	<u>691,363</u>	<u>659,795</u>

BALANCE SHEET

AS AT 31st DECEMBER 2005

	Notes	£	2005 £	£	2004 £
FIXED ASSETS					
Tangible Assets	1 & 9		303,670		311,311
Investments	10		9,739,182		7,928,799
			10,042,852		8,240,110
CURRENT ASSETS					
Stock	1	850		375	
Debtors	11	135,768		228,164	
Investments	10	9,873,774		7,377,824	
Short Term Deposits		1,670,690		3,560,260	
Cash at Bank and in Hand		1,291		178	
			11,682,373	11,166,801	
CREDITORS - Amounts falling due within one year	12	(14,428,823)		(12,837,122)	
NET CURRENT (LIABILITIES)			(2,746,450)		(1,670,321)
TOTAL ASSETS LESS CURRENT LIABILITIES					
			7,296,402		6,569,789
CREDITORS - Amounts falling due after one year	12		(39,158)		(3,908)
			<u>7,257,244</u>		<u>6,565,881</u>
CAPITAL AND RESERVES					
Called up Share Capital	13		450,000		450,000
Reserves	14		6,807,244		6,115,881
TOTAL SHAREHOLDERS' FUNDS	15		<u>7,257,244</u>		<u>6,565,881</u>
Equity shareholders' funds			6,807,344		6,115,981
Non-equity shareholders' funds			449,900		449,900
			<u>7,257,244</u>		<u>6,565,881</u>

Authorised for issue on 24th March 2006 by the Board of Directors and signed on behalf of the Board on 24th March 2006


C.R. CONNELL
Director

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st DECEMBER 2005

1. ACCOUNTING POLICIES

- a) The Financial Statements have been prepared under the historical cost convention as modified for the revaluation of Fixed Asset Investments 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 Fixed Asset 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.

Current Asset Investments which are holdings of Bonds and Government Securities are shown at cost or at market value, if lower than cost as adjusted on a time basis for the amortisation of Discounts or Premiums to redemption 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 2005. Assets and liabilities in foreign currencies are also converted at the rate ruling at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2005

1. ACCOUNTING POLICIES (Contd)

f) Pensions

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

g) Leasing

Operating lease rentals are charged to the Profit and Loss Account on an annual basis.

2. TURNOVER

Turnover represents call option business written by the Company in the ordinary course of business

3. ADMINISTRATION EXPENSES

	2005 £	2004 £
Comprises:-		
Directors' Remuneration (excluding benefits)	1,230,101	225,000
Auditors' Remuneration	8,284	7,873
Depreciation	11,416	10,902
Other Expenses	426,779	345,976

	<u>1,676,580</u>	<u>589,751</u>
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Directors' Remuneration

For Executive Services	<u>1,229,986</u>	<u>225,000</u>
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Emoluments of the Highest Paid Director (excluding Pension Contributions)	<u>1,199,810</u>	<u>245,169</u>
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4. OTHER OPERATING INCOME

Gain on Sale of Fixed Assets	<u>-</u>	<u>2,931</u>
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5. OTHER OPERATING COSTS

Loss on Sale of Fixed Assets	(274)	-
Contribution to Past Pension Costs	(23,000)	-
	<u>(23,274)</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2005

	2005 £	2004 £
6 INVESTMENT INCOME LESS INTEREST PAYABLE		
Dividends Receivable - Listed	636,677	349,662
Interest Receivable - Other	86,913	284,662
Gains/(Losses) on Sales of Investments	134,648	(502,460)
(Decrease)/Increase in value of Investments	(1,547)	394,662
Currency Gain/(Loss)	3,934	(67,206)
(Deficit)/Surplus on Loan Relationships	(8,697)	716
Partnership Income	1,407	-
	853,335	460,036
Interest - Bank Overdraft	(99)	(212)
	<u>853,236</u>	<u>459,824</u>
 7. 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>4</u>	<u>5</u>
Staff Costs for the above employees during the year amounted to:-	£	£
Wages and Salaries	1,318,686	360,932
Social Security Costs	166,323	43,799
Other Pension Costs	17,449	17,132
	<u>1,502,458</u>	<u>421,863</u>
 8. TAXATION		
The charge for the year comprises:-		
Current Year		
Group Relief	(5,000)	(64,000)
Overseas Tax	3,633	6,505
 Prior Year		
Group Relief	(115)	(4,150)
	<u>(1,482)</u>	<u>(61,645)</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2005

9. TANGIBLE FIXED ASSETS

	Land and Buildings			Vehicles Fittings and Equipment	Total
	Freehold £	Long Leasehold £	Short Leasehold £	£	£
Cost					
As at 1 st January 2005	206,337	127,178	37,851	90,843	462,209
Additions	-	-	-	4,049	4,049
Disposals	-	-	-	(1,410)	(1,410)
As at 31 st December 2005	<u>206,337</u>	<u>127,178</u>	<u>37,851</u>	<u>93,482</u>	<u>464,848</u>
Aggregate Depreciation					
As at 1 st January 2005	57,764	-	37,851	55,283	150,898
Charge for Year	4,126	-	-	7,290	11,416
On Disposals	-	-	-	(1,136)	(1,136)
As at 31 st December 2005	<u>61,890</u>	<u>-</u>	<u>37,851</u>	<u>61,437</u>	<u>161,178</u>
Net Book Value					
As at 31 st December 2005	<u>144,447</u>	<u>127,178</u>	<u>-</u>	<u>32,045</u>	<u>303,670</u>
As at 31 st December 2004	<u>148,573</u>	<u>127,178</u>	<u>-</u>	<u>35,560</u>	<u>311,311</u>

10. INVESTMENTS

Fixed Asset Investments	Listed £	Unlisted £	Property Partnership £	Total £
Cost				
As at 1 st January 2005	7,005,194	1	200,000	7,205,195
Additions	3,347,111	-	-	3,347,111
Disposals	(3,071,707)	-	-	(3,071,707)
As at 31 st December 2005	<u>7,280,598</u>	<u>1</u>	<u>200,000</u>	<u>7,480,599</u>
Valuation Adjustment				
As at 1 st January 2005	723,604	-	-	723,604
Increase in Value	1,534,979	-	-	1,534,979
As at 31 st December 2005	<u>2,258,583</u>	<u>-</u>	<u>-</u>	<u>2,258,583</u>
Net Values				
As at 31 st December 2005	<u>9,539,181</u>	<u>1</u>	<u>200,000</u>	<u>9,739,182</u>
As at 31 st December 2004	<u>7,728,798</u>	<u>1</u>	<u>200,000</u>	<u>7,928,799</u>

NOTES TO THE FINANCIAL STATEMENTS (Contd.)

FOR THE YEAR ENDED 31st DECEMBER 2005

	2005 £	2004 £
10 INVESTMENTS (Contd)		
Current Asset Investments		
UK Government Securities and Eurobonds – at Cost less provision for diminution in value (Market Value £9,968,293, 2004 £7,421,416)	<u>9,873,774</u>	<u>7,377,824</u>
11 DEBTORS		
Amounts falling due within one year:		
Taxation Recoverable	14,483	1,549
Other Debtors	5,315	88,521
Prepayments and Accrued Income	114,728	137,760
	<u>134,526</u>	<u>227,830</u>
Amounts falling due after one year:		
Loan Relationship Deferred Surplus	1,242	334
	<u>135,768</u>	<u>228,164</u>
12. CREDITORS		
Amounts falling due within one year:-		
Bank Overdraft	1,987	-
Other Creditors	157,507	1,168,891
Other Taxes and Social Security	36,562	34,254
Accruals and Deferred Income	1,123,505	24,291
Amounts owed to Group Undertakings	13,109,262	11,609,686
	<u>14,428,823</u>	<u>12,837,122</u>
Amounts falling due after one year:		
Loan Relationship Deferred Deficit	<u>39,158</u>	<u>3,908</u>
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>

Preference Shares

The non-cumulative preference shares are non-equity shares which carry an entitlement to a dividend at a rate of 4.2% 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 2005

14. RESERVES

	Capital Redemption Reserve Fund £	Revaluation Reserve £	Revenue Reserve £	Profit and Loss Account £	Total £
As at 1st January 2005	400	723,604	475,695	4,916,182	6,115,881
Increase in Value of Investments	-	1,534,979	-	-	1,534,979
(Loss) for year	-	-	-	(843,616)	(843,616)
As at 31st December 2005	<u>400</u>	<u>2,258,583</u>	<u>475,695</u>	<u>4,072,566</u>	<u>6,807,244</u>

	2005 £	2004 £
15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS		
Retained (Loss) for the year	(843,616)	(63,809)
Increase in value of Investments	1,534,979	723,604
Net Increase in Shareholders' Funds	691,363	659,795
Opening Shareholders' Funds	6,565,881	5,906,086
Closing Shareholders' Funds	<u>7,257,244</u>	<u>6,565,881</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 £16,170 (2004 - £16,000).

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 2005

19 OPERATING LEASE COMMITMENTS

	2005 Land & Buildings £	2004 Land & Buildings £
In one year or less	<u>10,000</u>	<u>10,000</u>