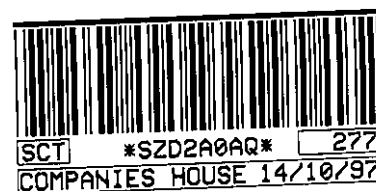


STEWART IVORY & COMPANY LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED 30TH JUNE 1997

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1.

STEWART IVORY & COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30TH JUNE 1997

The directors present their report and the audited financial statements for the year ended 30th June 1997.

1. Principal Activities and Status

The principal activities of the Company are the management of investment trusts and other investment portfolios including pension funds, charities and private clients. The Company is a wholly owned subsidiary of Stewart Ivory (Holdings) Limited. The Company is regulated by IMRO.

2. Review of Business and Future Developments

Profit before tax has not increased. The directors consider that the Company continues to be in a strong position to benefit from future business opportunities.

3. Results and Dividends

The profit for the year after taxation was £2,189,070. The following interim dividends have been paid.

1st Interim Dividend of £0.97 per 'A' Ordinary Share paid 4th October 1996
 2nd Interim Dividend of £0.05 per 'A' Ordinary Share paid 7th October 1996
 3rd Interim Dividend of £0.07 per 'A' Ordinary Share paid 7th October 1996
 4th Interim Dividend of £0.53 per 'A' Ordinary Share paid 7th April 1997
 5th Interim Dividend of £4.58 per 'A' Ordinary Share paid 9th April 1997
 6th Interim Dividend of £4.75 per 'A' Ordinary Share payable 3rd October 1997
 1st Interim Dividend of £0.05 per 'B' Ordinary Share paid 7th October 1996
 2nd Interim Dividend of £0.41 per 'B' Ordinary Share paid 7th April 1997
 3rd Interim Dividend of £3.53 per 'B' Ordinary Share paid 9th April 1997
 4th Interim Dividend of £3.67 per 'B' Ordinary Share payable 3rd October 1997
 The directors do not recommend a final dividend.
 The balance retained on the profit and loss account was thus £142,598

4. Directors

The directors who served during the year and their interests in the share capital of Stewart Ivory (Holdings) Limited were as follows:

	30th June 1997	30th June 1996
	Ord.	Ord.
I J Blair	7,730	7,730
J W Burns	7,730	7,730
J G D Ferguson	21,567	21,567
A M M Finlay	3,864	3,864
D J Hume	7,730	7,730
I E Ivory	21,567	21,567
J Ivory	21,567	21,567
B M McCorkell	10,820	10,820
D H Shaw Stewart	10,820	10,820
M H Sims	7,730	7,730
A J Tulloch	21,567	21,567
E A W Tulloch	21,567	21,567
J G L Wright	21,567	21,567

None of the directors has an interest in the share capital of the Company.
 Miss J G K Matterson resigned on 24th July 1996.
 Mr D.W.R. Ferguson resigned on 31st March 1997.

STEWART IVORY & COMPANY LIMITED**5. Directors' and Officers' Insurance**

The Company has effected a policy of insurance for its directors and officers in respect of potential liabilities arising from any negligence or error.

6. Charitable Donations

During the year the Company made charitable donations amounting to £29,356.

7. Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period.

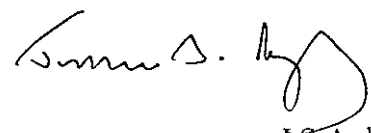
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30th June 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and for the prevention and detection of fraud and other irregularities.

8. Auditors

A resolution to re-appoint Coopers & Lybrand as the Company's auditors will be proposed at the Annual General Meeting.

By Order of the Board


JS Ayling
Secretary

EDINBURGH 2nd October 1997

**REPORT OF THE AUDITORS TO THE MEMBERS OF
STEWART IVORY & COMPANY LIMITED**

We have audited the financial statements on pages 4 to 15.

Respective responsibilities of directors and auditors

As described on page 2 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.

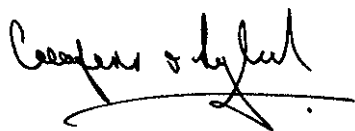
Basis of opinion

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 judgements 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 at 30th June 1997 and of its profit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors

EDINBURGH 2nd October 1997

STEWART IVORY & COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30TH JUNE 1997

	Notes	1997 £	1996 £
Continuing Operations			
Turnover	2	5,241,483	4,808,419
Administration Expenses	3	6,651,320	5,648,500
Operating loss		(1,409,837)	(840,081)
Other income	4	3,278,710	3,253,672
Profit on ordinary activities before tax		1,868,873	2,413,591
Tax on profit on ordinary activities	7	(320,197)	(226,594)
Profit for the financial year		2,189,070	2,640,185
Dividends	8	2,046,472	1,552,364
Retained profit for the year		142,598	1,087,821
Retained profit brought forward		2,835,375	1,747,554
Retained profit carried forward		2,977,973	2,835,375

There were no discontinued operations or acquisitions during the year.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The Statement of Total Recognised Gains and Losses, which shows a decrease in unrealised gains of £27,536 is shown at note 20.

STEWART IVORY & COMPANY LIMITED

BALANCE SHEET

AS AT 30TH JUNE 1997

	Notes	1997		1996	
		£	£	£	£
Fixed Assets					
Tangible assets	9		478,334		415,831
Investments:	10				
Shares in group companies		25,100		25,100	
Shares in related companies		1,050		1,050	
Other investments		<u>335,869</u>		<u>1,310,512</u>	
			<u>362,019</u>		<u>1,336,662</u>
			840,353		1,752,493
Current assets					
Debtors: amounts falling due after one year	11	712,341		762,429	
Debtors: amounts falling due within one year	12	2,470,362		3,523,157	
Cash at bank		<u>4,122,583</u>		<u>1,970,596</u>	
		<u>7,305,286</u>		<u>6,256,182</u>	
Creditors					
Amount falling due within one year	13	<u>3,806,724</u>		<u>3,784,822</u>	
Net current assets			<u>3,498,562</u>		<u>2,471,360</u>
Total Assets			<u>4,338,915</u>		<u>4,223,853</u>
Creditors					
Amount falling due after one year					
Subordinated loan	15		<u>1,100,000</u>		<u>1,100,000</u>
			<u>3,238,915</u>		<u>3,123,853</u>
Capital and Reserves					
Share Capital	16		225,000		225,000
Profit and Loss Account			2,977,973		2,835,375
Revaluation Reserve	21		35,942		63,478
Equity Shareholders' funds	22		<u>3,238,915</u>		<u>3,123,853</u>

The financial statements on pages 4 to 15 were approved by the board of directors on 2nd October 1997 and were signed on its behalf by:

..... J G D Ferguson Director
J G D Ferguson

..... Ian E. Ivory Director
I E Ivory

STEWART IVORY & COMPANY LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30TH JUNE 1997

	Notes	1997 £	1996 £
Net cash inflow/(outflow) from operating activities	19	233,304	(1,100,791)
Returns on investments and servicing of finance:			
Dividends received		3,027,341	3,027,982
Interest received		<u>180,570</u>	<u>98,958</u>
Net cash inflow from returns on investments and servicing of finance		3,207,911	3,126,940
Taxation:			
UK Corporation tax (incl.ACT)		133,440	131,985
Capital expenditure			
Sale of associated undertakings		-	5,000
Sale of fixed assets		900	-
Purchase of fixed assets		<u>(363,807)</u>	<u>(423,889)</u>
Net cash (outflow) from capital expenditure		(362,907)	(418,889)
Equity dividends paid		(2,055,026)	(1,262,015)
Cash inflow before management of liquid resources		<u>1,156,722</u>	<u>477,230</u>
Management of liquid resources		995,265	(141)
Increase in cash	19	<u><u>2,151,987</u></u>	<u><u>477,089</u></u>

STEWART IVORY & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1997

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention as modified for the valuation of government securities. The presentation of the Cash Flow statement has been revised in 1997 in accordance with revised Financial Reporting Standard 1 Cash Flow Statement.

(b) Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. There are no assets held under finance leases.

(c) Pension scheme arrangements

The company operates a non-contributory defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of these rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the Company benefits from the employees' services. The effects of variations from regular costs are spread over the expected average remaining service lives of members of the scheme.

The Company provides no other post retirement benefits to its employees.

(d) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are consistent with those of the previous year and are:-

Leasehold improvements	-	4%
Office equipment	-	25%
Office furniture	-	15%
Computer software and network	-	33 $\frac{1}{3}$ %

STEWART IVORY & COMPANY LIMITED

(e) Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable items. Provision is made for deferred tax at the rate of corporation tax ruling at the year end except in respect of any tax reduction which can reasonably be expected to continue for the foreseeable future.

(f) Foreign Currencies

Income received in foreign currencies is translated into sterling at the rate on the date of receipt. Foreign currency balances have been translated at market rates of exchange ruling at the Balance Sheet date. Gains and losses on exchange are taken to the Profit and Loss account.

(g) Investments

Investments are shown in the Balance Sheet at the lower of cost or directors' valuation, with the exceptions of Government Securities which are valued at mid-market value on the Balance Sheet date.

(h) Interest Income on Gilts

Interest income on Government Securities is accounted for when received.

2. **Turnover**

Turnover is the total of investment management and administration fees.

3. **Administration Expenses**

	1997 £	1996 £
Employment costs (note 5)	4,542,364	3,885,378
Depreciation of fixed assets	298,091	215,791
Auditors' remuneration	7,000	7,000
Foreign exchange differences	2,467	(5,253)
Operating lease payments	219,017	224,328
Loss on disposal of fixed assets	2,133	11,988
Other expenses	1,580,248	1,309,268
	<u>6,651,320</u>	<u>5,648,500</u>

The remuneration of the Company's auditors for the provision of non-audit services was £56,799 (1996 - £61,105).

STEWART IVORY & COMPANY LIMITED

	1997 £	1996 £
4. Other Income		
Deposit interest received	180,570	98,958
Dividends received - unlisted investments	3,027,341	3,027,982
Profit on sale of investments	48,156	98,765
Other Income	22,643	27,967
	<u>3,278,710</u>	<u>3,253,672</u>

5. **Information on Employees**

The Company's employment costs, including those in respect of executive directors, are as follows:

Salaries	3,621,710	3,015,633
Social security costs	339,220	352,035
Pension and other costs (see note 18)	581,434	517,710
	<u>4,542,364</u>	<u>3,885,378</u>

The average number of employees, other than directors, employed by the Company was 88. (1996 - 85).

6. **Directors' Emoluments**

Directors' emoluments, as executives, including pension contributions

<u>1,709,900</u>	<u>1,612,534</u>
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Emoluments, excluding pension contributions, of the highest paid director

<u>167,504</u>	<u>134,920</u>
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Retirement benefits are accruing to all of the directors (1996 all) under the group's defined benefit scheme.

7. **Tax on profit on Ordinary Activities**

	1997 £	1996 £
Group relief - current year	(328,496)	(197,791)
- prior year	1,708	(33,178)
Tax on Franked investment income	6,591	4,375
	<u>(320,197)</u>	<u>(226,594)</u>

STEWART IVORY & COMPANY LIMITED

8. Dividends	1997		1996	
	£	£	£	£
'A' Ordinary Shares				
1st interim paid	95,206		14,565	
2nd interim paid	4,794		85,433	
3rd interim paid	7,197		256,378	
4th interim paid	51,669		469,805	
5th interim paid	448,842		-	
6th interim payable 3rd October 1997	465,528		-	
		1,073,236		826,181
 'B' Ordinary Shares				
1st interim paid	7,197		256,378	
2nd interim paid	51,669		469,805	
3rd interim paid	448,842		-	
4th interim payable 3rd October 1997	465,528		-	
		973,236		726,183
		<u>2,046,472</u>		<u>1,552,364</u>

9. Tangible Fixed Assets

	Leasehold Improvements £	Office Furniture and Equipment £	Total £
<u>Cost</u>			
At 1st July 1996	10,629	1,159,315	1,169,944
Additions	-	363,807	363,807
Disposals	-	(18,861)	(18,861)
At 30th June 1997	<u>10,629</u>	<u>1,504,261</u>	<u>1,514,890</u>
<u>Depreciation</u>			
At 1st July 1996	3,825	750,288	754,113
Charge for the year	425	297,666	298,091
Disposals	-	(15,648)	(15,648)
At 30th June 1997	<u>4,250</u>	<u>1,032,306</u>	<u>1,036,556</u>
<u>Net Book Value</u>			
At 30th June 1997	<u>6,379</u>	<u>471,955</u>	<u>478,334</u>
At 30th June 1996	<u>6,804</u>	<u>409,027</u>	<u>415,831</u>

STEWART IVORY & COMPANY LIMITED

10. Investments

(a) Group Undertakings

The Company has the following subsidiary undertakings:-

Name of Company	Description of shares held	% held	Investment at cost	
			1997 £	1996 £
Stewart Ivory Unit Trust Managers Limited	Ordinary £1	100	25,000	25,000
Stewart Ivory & Company (International) Limited	Ordinary £1	100	100	100

The above companies are engaged in investment management.

Stewart Ivory Nominees Limited (non trading nominee company)	Ordinary £1	100	-	-
			<u>25,100</u>	<u>25,100</u>

Consolidated accounts have not been prepared in respect of the Company and its subsidiaries as the results and financial position of the companies are reflected in the financial statements of the ultimate holding company - Stewart Ivory (Holdings) Limited, which is registered in Scotland.

In the opinion of the directors the aggregate value of the Company's investment in its subsidiaries is not less than the aggregate of the amount at which the investment is stated in the balance sheet.

(b) <u>Associated Undertakings</u>	1997 £	1996 £
Unlisted shares at cost	<u>1,050</u>	<u>1,050</u>

These shares are in respect of a 50% interest in the ordinary share capital of the following investment companies:

- (i) Cunningham-Stewart Ivory Limited which is registered in Northern Ireland.
- (ii) Stewart OLIM Limited (non trading) which is registered in Scotland.

The results of these companies are not incorporated into the Group financial statements as the directors are of the opinion that they do not exercise ultimate control and that there would be no benefit to be derived on the grounds that the net assets and results of these companies are immaterial to the Group. Audited financial statements have been prepared to 30th June 1997 for Cunningham Stewart Ivory which show capital and reserves of £2,078 and fee income of £61,635. In the opinion of the directors the market value of these investments exceeds their cost.

STEWART IVORY & COMPANY LIMITED

10. Investments (continued)

(c) <u>Other Investments</u>	1997 £	1996 £
Listed securities - at Market Value	<u>335,869</u>	<u>1,310,512</u>

11. Debtors : amounts falling due after one year

Unsecured loans	415,112	466,719
Tax recoverable	<u>297,229</u>	<u>295,710</u>
	<u>712,341</u>	<u>762,429</u>

The unsecured loans are to Stewart Ivory Group ESOP Trustee Limited to enable it to make loans to employees who participate in the Stewart Ivory Group ESOP. Interest is charged at The Royal Bank of Scotland plc base rate from time to time. The loans are repayable in 5 equal annual instalments. The interest payment dates will co-incide with the loan repayment dates.

12. Debtors : amounts falling due within one year

	1997 £	1996 £
Trade debtors	1,383,533	1,263,451
Group undertakings	840,940	1,865,029
Prepayments	111,650	180,648
Other debtors	<u>134,239</u>	<u>214,029</u>
	<u>2,470,362</u>	<u>3,523,157</u>

13. Creditors: amounts falling due within one year

Group undertakings	1,372,326	1,624,505
Taxation and social security *	782,148	626,552
Dividends payable	931,056	939,609
Accruals	<u>721,194</u>	<u>594,156</u>
	<u>3,806,724</u>	<u>3,784,822</u>

* Taxation and social security comprises:

ACT payable	599,601	445,258
PAYE & NI	104,962	93,944
VAT	<u>77,585</u>	<u>87,350</u>
	<u>782,148</u>	<u>626,552</u>

STEWART IVORY & COMPANY LIMITED

14. Deferred Taxation

	1997		1996	
	Full Potential Liability £	Provision Made £	Full Potential Liability £	Provision Made £
Accelerated capital allowances	(89,379)		(80,108)	-
Other timing differences	27,807		29,822	-
ACT recoverable	(232,764)	(232,764)	(234,902)	(234,902)
	<u>(294,336)</u>	<u>(232,764)</u>	<u>(285,188)</u>	<u>(234,902)</u>

The total amount of ACT recoverable has been treated as a debtor due after more than one year (see note 11).

15. Subordinated Loan

Under the terms of an agreement with Stewart Ivory (Holdings) Limited, that company has granted an interest-free loan of £1,100,000 of no fixed term subordinated to the claims of all creditors to the Company.

16. Share Capital

	Authorised, Issued and Fully Paid	
	1997 £	1996 £
'A' Ordinary shares of £1	98,016	98,016
'B' Ordinary shares of £1	126,984	126,984
	<u>225,000</u>	<u>225,000</u>

17. Commitments

Commitments for payments in respect of operating leases to be made in the next year are as follows:-

	Land & Buildings		Plant & Equipment	
	1997 £	1996 £	1997 £	1996 £
Leases expiring within one year	-	-	1,733	-
Leases expiring between two and five years	47,500	47,500	12,141	17,858
Leases expiring after five years	142,000	142,000	-	-
	<u>189,500</u>	<u>189,500</u>	<u>13,874</u>	<u>17,858</u>

The Company has capital commitments at 30th June 1997 of £140,000.

STEWART IVORY & COMPANY LIMITED

18. Pension Obligations

The Company operates a pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Company.

The total pension cost for the Company was £549,372 (1996 - £497,506). The pension cost is assessed in accordance with the advice of an independent qualified actuary using the attained age method. The latest actuarial valuation of the scheme was at 1st September 1996. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 9% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at the rate of 4.5% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £4,790,060 and the actuarial value of the assets was sufficient to cover 109% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

19. Cash Flow Statement

a) Reconciliation of operating loss to cash outflow from operating activities	1997	1996
	£	£
Operating (loss)	(1,409,837)	(840,081)
Other operating income	22,643	27,967
	<u>(1,387,194)</u>	<u>(812,114)</u>
Depreciation on tangible fixed assets	298,091	215,791
Loss on disposal of fixed assets	2,313	11,988
Decrease/(Increase) in debtors	2,443,982	(1,859,229)
(Decrease)/Increase in creditors	(1,123,888)	1,342,773
Net cash inflow/(outflow) from operating activities	<u>233,304</u>	<u>(1,100,791)</u>
b) Analysis of change in cash during year	1997	1996
	£	£
Balance at 30th June 1996	1,970,596	1,493,507
Net cash inflow	2,151,987	477,089
	<u>4,122,583</u>	<u>1,970,596</u>

There were no movements in borrowings and cash balances (net debt) except for those shown in 19(a) and 19(b).

STEWART IVORY & COMPANY LIMITED

	1997 £	1996 £
20. Statement of Total Recognised Gains and Losses		
Profit for the financial year	2,189,070	2,640,185
Decrease in unrealised gain on investments	(27,536)	(47,860)
Total recognised gain and losses	<u>2,161,534</u>	<u>2,592,325</u>
21. Revaluation Reserve		
Balance at 30th June 1996	63,478	111,338
Realised Gain on sale of investment	(40,080)	(98,765)
Unrealised gain on investments	12,544	50,905
Balance at 30th June 1997	<u>35,942</u>	<u>63,478</u>
22. Reconciliation of movements in shareholders' funds	1997 £	1996 £
Total recognised gain and losses	2,161,534	2,592,325
Dividends	(2,046,472)	(1,552,364)
	<u>115,062</u>	<u>1,039,961</u>
Opening shareholders' funds	3,123,853	2,083,892
Closing shareholders' funds	<u>3,238,915</u>	<u>3,123,853</u>

23. Related party disclosures

The Company's income is solely derived from its activities as a manager and an administrator of investment portfolios for its clients under the terms of investment management contracts and may on a strict interpretation be deemed to be a "related party" to its clients within the definition of Financial Reporting Standard 8 - Related Party Disclosures.