

STEWART IVORY & COMPANY LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED 30TH JUNE 1998**

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1.

STEWART IVORY & COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30TH JUNE 1998

The Directors present their report and the audited financial statements for the year ended 30th June 1998.

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 increased and 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 £2,550,462. The following interim dividends have been paid and are payable.

1st Interim Dividend of £0.23 per 'A' Ordinary Share paid 1st December 1997.
 2nd Interim Dividend of £0.79 per 'A' Ordinary Share paid 7th of April 1998.
 3rd Interim Dividend of £3.83 per 'A' Ordinary Share paid 7th of April 1998.
 4th Interim Dividend of £0.64 per 'A' Ordinary Share paid 7th of April 1998.
 5th Interim Dividend of £5.87 per 'A' Ordinary Share payable 2nd October 1998.
 1st Interim Dividend of £2.96 per 'B' Ordinary Share paid 7th of April 1998.
 2nd Interim Dividend of £0.49 per 'B' Ordinary Share paid 7th of April 1998.
 3rd Interim Dividend of £4.53 per 'B' Ordinary Share payable 2nd October 1998.

The Directors do not recommend a final dividend.

The balance retained on the Profit and Loss Account was thus £3,400,548.

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 1998	30th June 1997
	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
J K Thomson	10,820	-
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.

Mr J K Thomson was appointed on 5th January 1998.

STEWART IVORY & COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30TH JUNE 1998

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 £30,601.

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 1998. 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. Year 2000 Compliance

The Directors are aware of the publicity regarding the ability of computer systems to cope with the change to a new millennium. As a consequence, the Stewart Ivory Group is planning to have all of its in-house electronic systems Year 2000 compliant by 31st December 1998.

During 1998 all of the Group's in-house systems will be tested to establish whether or not these systems are Year 2000 compliant. This testing will be performed by staff at Stewart Ivory and in certain cases in conjunction with third party software suppliers. If any systems are found not to be Year 2000 compliant a decision will then be taken to either upgrade, dispense or replace the system.

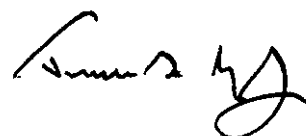
The identifiable cost of ensuring all of Stewart Ivory's in-house systems are Year 2000 compliant will be expensed in the year of payment where there is no enhanced benefit accruing, otherwise the development cost will be written off over the normal period for software depreciation. However, it has not been possible, either in this accounting period or for future periods, to quantify the costs relating directly to ensuring that the Group's hardware and software is made Year 2000 compliant. This compliance has largely been achieved as a by-product of enhancing the existing systems and the cost of management time involved in assessing the compliance of external parties is also not quantifiable.

**STEWART IVORY & COMPANY LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30TH JUNE 1998**

9. Auditors

Our auditors, Coopers & Lybrand merged with Price Waterhouse on 1st July 1998 and a resolution to appoint PricewaterhouseCoopers as auditors will be proposed at the annual general meeting.

By Order of the Board



J S Ayling
Secretary

EDINBURGH 24th September 1998

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

We have audited the financial statements on pages 5 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 1998 and of its profit and total recognised gains and losses for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

EDINBURGH 24th September 1998

STEWART IVORY & COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30TH JUNE 1998

	Notes	1998 £	1997 £
Turnover	2	5,682,797	5,241,483
Administration Expenses	3	7,261,925	6,651,320
Operating loss		(1,579,128)	(1,409,837)
Other income	4	3,777,827	3,278,710
Profit on ordinary activities before tax		2,198,699	1,868,873
Tax on profit on ordinary activities	7	(351,763)	(320,197)
Profit for the financial year		2,550,462	2,189,070
Dividends paid and payable	8	2,127,887	2,046,472
Retained profit for the year		422,575	142,598
Retained profit brought forward		2,977,973	2,835,375
Retained profit carried forward		3,400,548	2,977,973

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 an increase in unrealised gains of £21,995 is shown at note 19.

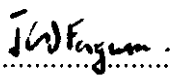
STEWART IVORY & COMPANY LIMITED

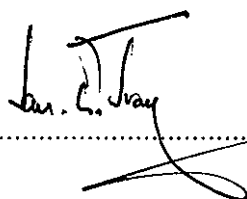
BALANCE SHEET

AS AT 30TH JUNE 1998

	Notes	1998		1997	
		£	£	£	£
Fixed Assets					
Tangible assets	9		577,376		478,334
Investments:	10				
Shares in group companies		25,100		25,100	
Shares in joint arrangement		1,000		1,000	
Shares in associated company		50		50	
Other investments		<u>357,863</u>		<u>335,869</u>	
			384,013		362,019
			<u>961,389</u>		<u>840,353</u>
Current assets					
Debtors: amounts falling due after one year	11	1,096,865		712,341	
Debtors: amounts falling due within one year	12	3,390,910		2,470,362	
Cash at bank		<u>3,702,978</u>		<u>4,122,583</u>	
		8,190,753		7,305,286	
Creditors					
Amount falling due within one year	13	<u>4,368,657</u>		<u>3,806,724</u>	
Net current assets			3,822,096		3,498,562
Total Assets			<u>4,783,485</u>		<u>4,338,915</u>
Creditors					
Amount falling due after one year					
Subordinated loan	15		<u>1,100,000</u>		<u>1,100,000</u>
Net Assets			<u>3,683,485</u>		<u>3,238,915</u>
Capital and Reserves					
Share Capital	16		225,000		225,000
Profit and Loss Account			3,400,548		2,977,973
Revaluation Reserve	20		57,937		35,942
Equity Shareholders' funds	21		<u>3,683,485</u>		<u>3,238,915</u>

The financial statements on pages 5 to 15 were approved by the Board of Directors on 24th September 1998 and were signed on its behalf by:


 Director
 J G D Ferguson


 Director
 I E Ivory

STEWART IVORY & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1998

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.

(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.

One Director has arranged to have his pension contributions paid into his own money purchase pension 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
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1998

(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 exception 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.

(d) Cashflow statement

No cashflow statement has been prepared as a consolidated cashflow statement is included in the financial statements of the ultimate holding company, Stewart Ivory (Holdings) Limited.

2. Turnover

Turnover is the total of investment management and administration fees.

	1998	1997
	£	£
3. Administration Expenses		
Employment costs (note 5)	5,013,600	4,542,364
Depreciation of fixed assets	372,083	298,091
Auditors' remuneration	7,250	7,000
Foreign exchange differences	324	2,467
Operating lease payments	203,660	219,017
Loss on disposal of fixed assets	-	2,133
Other expenses	1,665,008	1,580,248
	<u>7,261,925</u>	<u>6,651,320</u>

The remuneration of the Company's auditors for the provision of non-audit services was £64,930 (1997 - £56,799).

STEWART IVORY & COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 1998

4. Other Income	1998	1997
	£	£
Deposit interest received	352,425	180,570
Dividends received - unlisted investments	3,416,437	3,027,341
Profit on sale of investments	-	48,156
Other income	8,965	22,643
	<u>3,777,827</u>	<u>3,278,710</u>

5. Information on Employees

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

	1998	1997
	£	£
Salaries	3,945,424	3,621,710
Social security costs	389,276	339,220
Pension and other costs (see note 18)	678,900	581,434
	<u>5,013,600</u>	<u>4,542,364</u>

The average number of employees, including Directors, employed by the Company was 97 (1997 - 88).

6. Directors' Emoluments

	1998	1997
	£	£
Directors' emoluments, as executives, including pension contributions	<u>1,723,054</u>	<u>1,709,900</u>
Emoluments, excluding pension contributions, of the highest paid director	<u>148,833</u>	<u>167,504</u>
Pension contributions, of the highest paid director	<u>27,440</u>	<u>21,560</u>

Retirement benefits are accruing to all but one of the Directors (1997- all) under the Group's defined benefit scheme. The accrued retirement benefit to the highest paid director at the period end was £66,556 (1997 - £59,836).

STEWART IVORY & COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 1998

		1998	1997
		£	£
7.	Tax on profit on Ordinary Activities		
	Group relief - current year	(355,008)	(328,496)
	- prior year	(10,043)	1,708
	Tax on Franked investment income	13,288	6,591
		<u>(351,763)</u>	<u>(320,197)</u>
		1998	1997
		£	£
8.	Dividends		
	'A' Ordinary Shares		
	1st interim paid	22,171	95,206
	2nd interim paid	77,833	4,794
	3rd interim paid	375,526	7,197
	4th interim paid	62,753	51,669
	5th interim payable/paid	575,662	448,842
	6th interim payable	-	465,528
		<u>1,113,945</u>	<u>1,073,236</u>
	'B' Ordinary Shares		
	1st interim paid	375,526	7,197
	2nd interim paid	62,753	51,669
	3rd interim payable/paid	575,663	448,842
	4th interim payable	-	465,528
		<u>1,013,942</u>	<u>973,236</u>
		<u>2,127,887</u>	<u>2,046,472</u>
9.	Tangible Fixed Assets		
	Leasehold Improvements	Office Furniture and Equipment	Total
	£	£	£
	<u>Cost</u>		
	At 1st July 1997	10,629	1,514,890
	Additions	-	471,125
	At 30th June 1998	<u>10,629</u>	<u>1,986,015</u>
	<u>Depreciation</u>		
	At 1st July 1997	4,250	1,036,556
	Charge for the year	425	372,083
	At 30th June 1998	<u>4,675</u>	<u>1,408,639</u>
	<u>Net Book Value</u>		
	At 30th June 1998	<u>5,954</u>	<u>577,376</u>
	At 30th June 1997	<u>6,379</u>	<u>478,334</u>

STEWART IVORY & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1998

10. **Investments**

(a) Group Undertakings

The Company has the following subsidiary undertakings:-

Name of Company	Description of shares held	% held	Investment at cost	
			1998 £	1997 £
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>	1998	1997
	£	£
Unlisted shares at cost	<u>50</u>	<u>50</u>

These shares are in respect of a 50% interest in the ordinary share capital of Stewart OLIM Limited (non trading) which is registered in Scotland.

STEWART IVORY & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1998

10. Investments (continued)

(c) <u>Other Investments</u>	1998 £	1997 £
Listed securities - at Market Value	357,863	335,869
Investment in joint arrangement	1,000	1,000
	<u>358,863</u>	<u>336,869</u>

The investment in joint arrangement represents a 50% interest in Cunningham Stewart Ivory Limited which is registered in Northern Ireland.

11. Debtors : amounts falling due after one year

	1998 £	1997 £
Unsecured loans	705,765	415,112
Tax recoverable	391,100	297,229
	<u>1,096,865</u>	<u>712,341</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 coincide with the loan repayment dates.

12. Debtors : amounts falling due within one year

	1998 £	1997 £
Trade debtors	1,525,813	1,383,533
Group undertakings	1,456,435	840,940
Prepayments	174,423	111,650
Other debtors	234,239	134,239
	<u>3,390,910</u>	<u>2,470,362</u>

13. Creditors: amounts falling due within one year

	1998 £	1997 £
Group undertakings	1,699,580	1,372,326
Taxation and social security *	725,882	782,148
Dividends payable	1,151,325	931,056
Accruals	791,870	721,194
	<u>4,368,657</u>	<u>3,806,724</u>

* Taxation and social security comprises:

ACT payable	528,563	599,601
PAYE & NI	123,969	104,962
VAT	73,350	77,585
	<u>725,882</u>	<u>782,148</u>

STEWART IVORY & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1998

14. Deferred Taxation

	1998		1997	
	Full Potential Liability £	Provision Made £	Full Potential Liability £	Provision Made £
Accelerated capital allowances	(112,774)	-	(89,379)	-
Other timing differences	35,751	-	27,807	-
ACT recoverable	(287,831)	(287,831)	(232,764)	(232,764)
	<u>(364,854)</u>	<u>(287,831)</u>	<u>(294,336)</u>	<u>(232,764)</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	
	1998 £	1997 £
'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	
	1998 £	1997 £	1998 £	1997 £
Leases expiring within one year	3,958	-	5,656	1,733
Leases expiring between two and five years	-	47,500	-	12,141
Leases expiring after five years	179,500	142,000	-	-
	<u>183,458</u>	<u>189,500</u>	<u>5,656</u>	<u>13,874</u>

The Company has capital commitments at 30th June 1998 of £151,900 (1997 - £140,000).

STEWART IVORY & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1998

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 £648,657 (1997 - £549,372). 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 1995. 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. Statement of Total Recognised Gains and Losses	1998	1997
	£	£
Profit for the financial year	2,550,462	2,189,070
Increase/(Decrease) in unrealised gain on investments	21,995	(27,536)
Total recognised gains and losses	<u>2,572,457</u>	<u>2,161,534</u>
 20. Revaluation Reserve	 1998	 1997
	£	£
Balance at 30th June 1997	35,942	63,478
Realised gain on sale of investment	-	(40,080)
Unrealised gain on investments	21,995	12,544
Balance at 30th June 1998	<u>57,937</u>	<u>35,942</u>
 21. Reconciliation of movements in shareholders' funds	 1998	 1997
	£	£
Total recognised gains and losses	2,572,457	2,161,534
Dividends paid and payable	(2,127,887)	(2,046,472)
	<u>444,570</u>	<u>115,062</u>
Opening shareholders' funds	3,238,915	3,123,853
Closing shareholders' funds	<u>3,683,485</u>	<u>3,238,915</u>

STEWART IVORY & COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 1998

22. 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.

23. Ultimate Holding Company

The ultimate holding company is Stewart Ivory (Holdings) Limited, which is registered in Scotland.