

**LOCHAY INVESTMENTS LIMITED
AND SUBSIDIARY UNDERTAKINGS**

REPORT and FINANCIAL STATEMENTS

For the year ended 30th September 1998



LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

DIRECTORS REPORT

The director presents his report and financial statements for the year ended 30th September 1998.

Review of the business

The principal activities of the company were property development, property trading and related consultancy services.

During the year a new subsidiary, Lochay Properties Limited, was set up. This company's principal activity is property investment.

Results and dividends

The trading profit for the year, after taxation, amounted to £58,379 (1997 £100,054). The director does not recommend the payment of a dividend.

Future developments

The director intends to continue the company's consultancy services and continue to expand upon its property development and trading activities.

Fixed assets

The movement of fixed assets is shown in the notes to the financial statements.

Share capital

The movement of share capital is shown in the notes to the financial statements.

Director and his interest

The director and his interest was as follows:

W G R Thomson

As at
30th September
1997 and 1998

6,000

=====

Auditors

J F Small Limited have indicated their intention to resign as auditors of the company. Jeffrey Crawford have indicated their willingness to be appointed as auditors to the company. It is proposed that they are duly appointed.

Statement of the director's responsibilities

Company law requires the director 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 its profit or loss of the company for that period. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him 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.

BY ORDER OF THE BOARD

SECRETARY

23rd June 1999

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF
LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS**

We have audited the accounts on pages 3 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of the directors and auditors

As described on page 1, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs at 30th September 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**J. & F. Small Limited
Registered Auditors
Ratho Hall
Baird Road
Ratho EH28 8QY**



Dated: 23rd June 1999

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

CONSOLIDATED PROFIT and LOSS ACCOUNT

For the year ended 30th September 1998

	Notes	£	1998 £	£	1997 £
Turnover	2		205,920		326,869
Cost of sales			-		160,405
Gross profit			205,920		166,464
Administrative expenses			111,052		99,795
Operating profit	3		94,868		66,669
Income from interest in Associated company			3,392		70,256
			98,260		136,925
Interest received		66,898		34,978	
Interest payable	4	(99,810)		(37,927)	
			(32,912)		(2,949)
Profit on ordinary activities before taxation			65,348		133,976
Tax on profit on ordinary activities	5		6,969		33,922
Profit on ordinary activities after taxation			58,379		100,054
Dividend paid			-		-
Profit retained in year	13		58,379		100,054

There were no discontinued operations during the year.

STATEMENT OF RECOGNISED GAINS AND LOSSES

	1998 £	1997 £
Profit for the year	58,379	100,054
Surplus on revaluation	200,356	-
	258,735	100,054

The notes on pages 6 to 12 form part of these financial statements.

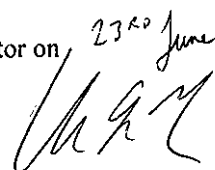
LOCHAY INVESTMENTS LIMITED

CONSOLIDATED BALANCE SHEET

As at 30th September 1998

	Notes	£	1998 £	£	1997 £
Fixed assets					
Tangible assets	6		1,382,905		319,400
Investments	7		204,717		300,706
			<u>1,587,625</u>		<u>620,106</u>
Current assets					
Stock and work in progress	8	555,515		541,315	
Cash at bank		39,398		10	
Debtors and prepayments	9	400,173		206,271	
		<u>995,086</u>		<u>747,596</u>	
Creditors: Amounts falling due within one year	10	<u>509,397</u>		<u>206,970</u>	
Net current (liabilities)/assets			<u>485,689</u>		<u>540,626</u>
			<u>2,073,314</u>		<u>1,160,732</u>
Creditors: Amounts due after more than one year	11		<u>1,572,653</u>		<u>918,806</u>
			<u>500,661</u>		<u>241,926</u>
Capital and reserves					
Called up share capital	13		10,000		10,000
Profit and loss account	14		290,305		231,926
Revaluation reserve	15		200,356		-
			<u>500,661</u>		<u>241,926</u>

The financial statements were approved by the Director on ^{23rd June} 1999.



 W G R THOMSON
 Director

The notes on pages 6 to 12 form part of these financial statements.

LOCHAY INVESTMENTS LIMITED

BALANCE SHEET

As at 30th September 1998

	Notes	£	1998 £	£	1997 £
Fixed assets					
Tangible assets	6		10,905		319,400
Investments	7		202,761		300,135
			<u>213,666</u>		<u>619,535</u>
Current assets					
Stock and work in progress	8	37,283		23,083	
Cash at bank		67		10	
Debtors and prepayments	9	572,074		252,497	
		<u>609,424</u>		<u>275,590</u>	
Creditors: Amounts falling due within one year	10	<u>430,216</u>		<u>206,931</u>	
Net current (liabilities)/assets			<u>179,208</u>		<u>68,659</u>
			<u>392,874</u>		<u>688,194</u>
Creditors: Amounts due after more than one year	11		<u>125,978</u>		<u>446,971</u>
			<u>266,896</u>		<u>241,223</u>
Capital and reserves					
Called up share capital	12		10,000		10,000
Profit and loss account	13		256,896		231,223
			<u>266,896</u>		<u>241,223</u>

The financial statements were approved by the Director on 23.2 June 1999.



 W G R THOMSON Director

The notes on pages 6 to 12 form part of these financial statements

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES to the FINANCIAL STATEMENTS

For the year ended 30th September 1998

1. Accounting policies

(a) Accounting convention

The financial statements are prepared under the historical cost convention.

(b) Depreciation

Depreciation is not provided on freehold land and buildings as the property is held as an investment. Depreciation is calculated, on all other fixed assets, to write off the cost of fixed assets over their working lives on the following basis:

Office Equipment - 25% straight line
Motor Vehicle - 25% straight line

(c) Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

(d) Deferred taxation

No provision is made in respect of deferred taxation.

(e) Stock and work in progress

Stock and work in progress is stated at the lower of cost and net realisable value as follows:

Cost includes direct acquisition costs plus attributable overheads.

Net realisable value is based on the estimated selling price less further costs expected to be incurred.

2. Turnover

Turnover represents amounts invoiced to third parties. The company is registered for valued added tax. Turnover comprises:

	1998 £	1997 £
Rental income	125,504	39,731
Property trading	-	182,000
Other income	80,416	105,138
	-----	-----
	205,920	326,869
	=====	=====

3. Operating profit

	1998 £	1997 £
This is stated after charging:		
Auditors' remuneration	2,550	1,750
Director's remuneration	73,975	72,040
Irrecoverable V.A.T.	-	636
Depreciation - owned assets	1,198	1,127
- held under hire purchase contracts	9,096	9,096
Formation expenses	385	-
	=====	=====

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 30th September 1998

4. Interest payable	1998 £	1997 £
Bank loan	166	19,968
Other loan	11,590	6,103
Bank overdraft	6,391	8,271
Building Society loan interest	79,413	-
Interest rate CAP	533	2,133
Hire purchase interest	1,288	1,288
Interest on overdue taxation	429	164
	<u>99,810</u>	<u>37,927</u>

5. Tax on profit on ordinary activities	1998 £	1997 £
Based on profit for the period		
Corporation tax at 21% (1997 24%)	12,235	17,039
Overprovided in previous years	(7,173)	-
	<u>5,062</u>	<u>17,039</u>
Share of Associated company's tax	1,907	16,883
	<u>6,969</u>	<u>33,922</u>

6. Tangible fixed assets	Freehold Land and Buildings £	Motor Vehicle £	Office Equipment £	Total £
Group				
Cost				
As at 1st October 1997	298,483	36,383	4,511	339,377
Additions	873,161	-	282	873,443
Revaluation	200,356	-	-	200,356
	<u>1,372,000</u>	<u>36,383</u>	<u>4,793</u>	<u>1,413,176</u>
Depreciation				
As at 1st October 1997	-	18,192	1,785	19,977
Charge for period	-	9,096	1,198	10,294
	<u>-</u>	<u>27,288</u>	<u>2,983</u>	<u>30,271</u>
Net book value				
At 30th September 1998	<u>1,372,000</u>	<u>9,095</u>	<u>1,810</u>	<u>1,382,905</u>
At 30th September 1997	<u>298,483</u>	<u>18,191</u>	<u>2,726</u>	<u>319,400</u>

The net book value of motor vehicle above includes an amount of £9,095 (1997 £18,191) in respect of an asset held under a hire purchase contract.

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 30th September 1998

6. Tangible fixed assets (contd.)	Land and Buildings £	Motor Vehicle £	Office Equipment £	Total £
Company				
Cost				
As at 1st October 1997	298,483	36,383	4,511	339,377
Additions	-	-	282	282
Disposals	(298,483)	-	-	(298,483)
	-----	-----	-----	-----
	-	36,383	4,793	41,176
	-----	-----	-----	-----
Depreciation				
As at 1st October 1997	-	18,192	1,785	19,977
Charge for period	-	9,096	1,198	10,294
	-----	-----	-----	-----
	-	27,288	2,983	30,271
	-----	-----	-----	-----
Net book value				
At 30th September 1998	-	9,095	1,810	10,905
	=====	=====	=====	=====
At 30th September 1997	298,483	18,191	2,726	319,400
	=====	=====	=====	=====

The net book value of motor vehicle above includes an amount of £9,095 (1997 £18,191) in respect of an asset held under a hire purchase contract.

7. Investments

	1998 £	1997 £
Group		
Unsecured loan stock	-	250,000
Other loans	202,625	50,000
Shares in Associated Companies	2,092	606
Shares in subsidiary undertaking	-	100
	-----	-----
	204,717	300,706
	=====	=====

During the year the unsecured loan stock was repaid.

The other loans represent		
Kenmore South Limited	50,000	50,000
Kenmore Caledonian Limited	50,000	-
Fountainhill Properties Limited	102,625	-
	-----	-----
	202,625	50,000
	=====	=====

Other loans represent postponed loans into certain property development activities where the return is a percentage of profit. This return is nominally a return on the investment but more significantly an incentive payment for the services of the director in promoting and assisting in developing these projects. W. G. R. Thomson is a director of all the above named companies.

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 30th September 1998

7. Investments (contd.)

Associated Companies

The shares are in Lukmore Properties Limited, a company registered in Scotland. The holding amounts to 33 1/3% of the company's share capital.

	1998 £	1997 £
Company		
Unsecured loan stock	-	250,000
Other loans	202,625	50,000
Shares in Associated Company	34	33
Shares in subsidiary undertakings	102	102
	<u>202,761</u>	<u>300,135</u>

During the year the unsecured loan stock was repaid.

The other loans represent

Kenmore South Limited	50,000	50,000
Kenmore Caledonian Limited	50,000	-
Fountainhill Properties Limited	102,625	-
	<u>202,625</u>	<u>50,000</u>

Other loans represent postponed loans into certain property development activities where the return is a percentage of profit. This return is nominally a return on the investment but more significantly an incentive payment for the services of the director in promoting and assisting in developing these projects. W. G. R. Thomson is a director of all the above named companies.

Associated Company

Name of company	Holding	Proportion held	Business
Lukmore Properties Limited	Ordinary Shares	33 1/3%	Property Development
Ardair Limited	Ordinary Shares	33 1/3%	Property Investment

Both of the associated companies are registered in Scotland.

Subsidiary Undertakings

Name of company	Holding	Proportion held	Business
E G Retail Limited	Ordinary Shares	100%	
Lochay Properties Limited	Ordinary Shares	100%	Property Investment

Both of the subsidiary companies are registered in Scotland.

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 30th September 1998

	1998	Group 1997	1998	Company 1997
	£	£	£	£
8. Stock and work-in-progress				
Stock and work-in-progress comprises of properties held for resale.				
Stocks	555,515	541,315	37,283	23,083
	=====	=====	=====	=====

	1998	Group 1997	1998	Company 1997
	£	£	£	£
9. Debtors				
Trade debtors	14,394	26,859	14,394	26,859
Other debtors	139,575	96,958	55,575	12,958
Prepayments	173	704	173	704
Loan to Associated Company	246,031	19,300	246,031	19,300
Loan to subsidiary undertakings	-	62,450	255,901	192,676
	400,173	206,271	572,074	252,497
	=====	=====	=====	=====

	1998	Group 1997	1998	Company 1997
	£	£	£	£
10. Creditors: Amounts falling due within one year				
Bank overdraft	156,120	63,286	156,120	63,286
Bank loan current instalments	-	18,000	-	18,000
Deferred income	10,292	3,188	-	3,188
Other taxes and social security costs	6,727	7,406	1,382	7,406
Current corporation tax	27,325	32,129	18,445	32,090
Accruals	15,691	7,122	15,187	7,122
Other creditors	751	51	751	51
Directors loan	156,587	66,048	156,587	66,048
Hire purchase liability	808	9,740	808	9,740
Britannia Building Society loan	54,160	-	-	-
Other loan	80,936	-	80,936	-
	509,397	206,970	430,216	206,931
	=====	=====	=====	=====

The bank overdraft is secured by a floating charge over the assets of the company.

	1998	Group 1997	1998	Company 1997
	£	£	£	£
11. Creditors: Amounts falling due after more than one year				
Bank loan	-	213,427	-	213,427
Director's loan	346,978	372,800	125,978	151,800
Hire purchase liability	-	808	-	808
Other loans	100,000	180,936	-	80,936
Sundry creditors and accruals	150,835	150,835	-	-
Britannia Building Society (note 12)	974,840	-	-	-
	1,572,653	918,806	125,978	446,971
	=====	=====	=====	=====

The bank loan is a 15 year term loan secured over the freehold land and buildings. Interest is payable at 2½% above the Clydesdale Bank base rate.

The director's loan is unsecured and without terms.

Included in sundry creditors is an amount of £30,000 due to Chiene & Tait C.A. W G R Thomson is a partner in Chiene & Tait C.A.

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 30th September 1998

12. Loans	1998
	£
Not wholly repayable within five years	
Building Society loan	1,029,000
	=====
Amounts repayable by instalments:	
Within five years	270,800
After five years	758,200

	1,029,000
Included in creditors: amounts falling due within one year	54,160

	974,840
	=====

The loan is secured over the tangible fixed assets of the company and is repayable in equal quarterly instalments. Interest is charged at 7.76%.

13. Share capital	Authorised		Allotted called up and fully paid	
	No.	£	No.	£
Ordinary shares of £1 each	10,000	10,000	10,000	10,000
	=====	=====	=====	=====
14. Profit and loss account	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
As at 1 October 1997	231,926	131,872	231,223	131,872
Profit for the year	58,379	100,054	25,673	99,351
	-----	-----	-----	-----
As at 30 September 1998	290,305	231,926	256,896	231,223
	=====	=====	=====	=====
15. Revaluation reserve	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
As at 1 October 1997	-	-	-	-
Surplus on revaluation	200,356	-	-	-
	-----	-----	-----	-----
As at 30 September 1998	200,356	-	-	-
	=====	=====	=====	=====

LOCHAY INVESTMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES to the FINANCIAL STATEMENTS (Contd.)

For the year ended 30th September 1998

		Group		Company
16. Reconciliation of movements in shareholders' funds	1998	1997	1998	1997
	£	£	£	£
Shareholders' funds at 1 October 1997	241,926	141,872	241,223	141,872
Profit for the year	58,379	100,054	25,673	99,351
Surplus on revaluation	200,356	-	-	-
	-----	-----	-----	-----
Shareholders' funds at 30 September 1998	500,665	241,926	266,896	241,223
	=====	=====	=====	=====

17. Statement of cash flow

The company has taken advantage of the exemptions conferred by FRS1 from the requirement to prepare a cash flow statement. It has done so on the grounds that it is a small company.