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ARNBROOK INVESTMENTS LIMITED

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2000**



REGISTERED IN SCOTLAND No. 178697



ARNBROOK INVESTMENTS LIMITED

COMPANY INFORMATION

DIRECTOR: AJ O'Neill

SECRETARY: SV O'Neill

REGISTERED OFFICE: Seafield Road
Longman
Inverness IV1 1SJ

REGISTERED NUMBER: 178697

AUDITORS: Scott-Moncrieff
Chartered Accountants
Registered Auditor
25 Bothwell Street
Glasgow G2 6NL

ARNBROOK INVESTMENTS LIMITED

DIRECTOR'S REPORT FOR THE YEAR ENDED 31 JANUARY 2000

The director submits his annual report together with the financial statements of the company for the year ended 31 January 2000.

RESULTS AND DIVIDENDS

The results for the year and the financial position of the company are shown in the annexed financial statements. A dividend of £30,000 was paid during the year (1999 - Nil).

REVIEW OF BUSINESS

The company has interests in construction and engages in property investment. The director expects these activities to continue for the foreseeable future.

The director is satisfied with the level of profits earned during the year from each of the group's activities and has reasonable expectations of satisfactory results in the coming year.

FIXED ASSETS

The changes in fixed assets during the year are summarised in the notes to the financial statements.

THE DIRECTOR AND HIS INTERESTS

The sole director of the company who served during the year was A.J.O'Neill, who was beneficially interested in the whole of the issued share capital of the company throughout the year.

STATEMENT OF 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 the profit or loss of the company for that year. 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. He is 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.

AUDITORS

A resolution to re-appoint Scott-Moncrieff, Chartered Accountants, as auditors will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD



SV O'Neill - Secretary

Dated: 29 November 2000

ARNBROOK INVESTMENTS LIMITED

REPORT OF THE AUDITORS TO THE SHAREHOLDER ON THE FINANCIAL STATEMENTS OF ARNBROOK INVESTMENTS LIMITED

We have audited the financial statements on pages 5 to 12 which have been prepared under the historical cost convention.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTOR AND AUDITORS

As described on page 3 the company's director is 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.*

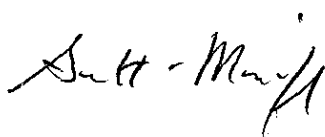
BASIS OF OPINION

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 director 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 31 January 2000 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



**Scott-Moncrieff
Chartered Accountants
Registered Auditor
25 Bothwell Street
Glasgow G2 6NL**

Dated: 29 November 2000

ARNBROOK INVESTMENTS LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JANUARY 2000**

	Notes	2000 £	1999 £
TURNOVER	2	145,451	114,850
Cost of sales		31,910	21,079
GROSS PROFIT		113,541	93,771
Income from shares in group undertakings		270,000	200,000
Administrative expenses		264,160	192,086
OPERATING PROFIT	3	119,381	101,685
Bank interest payable		68,511	69,717
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		50,870	31,968
Taxation	4	-	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		50,870	31,968
Capitalisation of reserves		-	25,198
Dividend		30,000	-
Retained profit brought forward		6,770	-
RETAINED PROFIT CARRIED FORWARD		27,640	6,770

CONTINUING OPERATIONS

None of the company's activities was acquired or discontinued during the current or previous financial year.

The notes form part of these financial statements.

ARNBROOK INVESTMENTS LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JANUARY 2000**

	2000	1999
	£	£
Profit for the financial year	27,640	6,770
Unrealised surplus on revaluation of properties	<u>148,000</u>	<u>-</u>
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	<u>175,640</u>	<u>6,770</u>
TOTAL GAINS AND LOSSES RECOGNISED SINCE THE LAST ANNUAL REPORT	<u>175,640</u>	<u>6,770</u>

HISTORICAL COST

There is no material difference between the profit on ordinary activities before taxation and the retained profit reported in the profit and loss account and the equivalent figures calculated on the historical cost basis.

The notes form part of these financial statements.

ARNBROOK INVESTMENTS LIMITED

BALANCE SHEET 31 JANUARY 2000

	Notes	2000 £	1999 £
FIXED ASSETS			
Tangible assets	5	575,000	427,000
Investments	6	<u>999,625</u>	<u>1,031,535</u>
		1,574,625	1,458,535
CURRENT ASSETS			
Debtors	7	98,330	31,161
Cash in hand		<u>2</u>	<u>2</u>
		98,332	31,163
CREDITORS			
Amounts falling due within one year	8	<u>1,472,117</u>	<u>1,457,728</u>
NET CURRENT LIABILITIES		<u>1,373,785</u>	<u>1,426,565</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>200,840</u>	<u>31,970</u>
CAPITAL AND RESERVES			
Called up share capital	9	25,200	25,200
Profit and loss account		27,640	6,770
Revaluation reserve	10	<u>148,000</u>	<u>-</u>
SHAREHOLDER'S FUNDS	11	<u>200,840</u>	<u>31,970</u>

ON BEHALF OF THE BOARD



AJ O'Neill - Director

Dated: 29 November 2000

The notes form part of these financial statements.

ARNBROOK INVESTMENTS LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JANUARY 2000

	Notes	2000 £	1999 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	A	(263,980)	(151,418)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(68,511)	(69,717)
Dividends received from subsidiary undertaking		<u>270,000</u>	<u>200,000</u>
		201,489	130,283
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		-	(427,000)
Purchase of secured loans		-	(246,693)
Realisation of secured loans		<u>82,950</u>	<u>56,430</u>
		82,950	(617,263)
ACQUISITIONS AND DISPOSALS			
Cash purchase of subsidiary undertaking		-	(800,000)
Costs involved in purchase		<u>-</u>	<u>(5,921)</u>
		-	(805,921)
EQUITY DIVIDENDS PAID		<u>(30,000)</u>	<u>-</u>
NET CASH OUTFLOW BEFORE FINANCING		(9,541)	(1,444,319)
FINANCING			
Share issue		<u>-</u>	<u>2</u>
DECREASE IN CASH	B	<u>(9,541)</u>	<u>(1,444,317)</u>
Note A			

Reconciliation of operating profit to net cash outflow from operating activities

Operating profit	119,381	101,685
Dividends received from subsidiary undertaking	(270,000)	(200,000)
Profit on sale of secured loans	(51,040)	(35,351)
Increase in debtors	(67,169)	(31,161)
Increase in creditors	<u>4,848</u>	<u>13,409</u>
	<u>(263,980)</u>	<u>(151,418)</u>

Note B
Analysis of the balances of cash as shown in the balance sheet

Cash	2	2
Bank overdraft (secured)	<u>(1,453,860)</u>	<u>(1,444,319)</u>
	<u>(1,453,858)</u>	<u>(1,444,317)</u>
Change in year	<u>(9,541)</u>	<u>(1,444,317)</u>

Note C
Analysis of changes in net funds during the year

	At 1.2.99	Cash flows	At 31.1.00
Cash at bank and in hand	2	-	2
Bank overdraft	(1,444,319)	(9,541)	(1,453,860)
	<u>(1,444,317)</u>	<u>(9,541)</u>	<u>(1,453,858)</u>

ARNBROOK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2000

1. ACCOUNTING POLICIES

Accounting Convention

The financial statements have been prepared under the historical cost convention modified to include the revaluation of investment properties.

Consolidation

The company and its subsidiaries comprise a medium-sized group. The company therefore has taken advantage of the exemption provided by the Companies Act 1985 not to prepare group financial statements.

Depreciation

No depreciation is provided in respect of freehold properties, which were revalued by the director at the balance sheet date. The director considers that the underlying values of the properties are not less than their balance sheet values and this accounting policy is necessary for the financial statements to give a true and fair view.

Pension Fund

Pension benefits are funded by payments to trustee administered funds. The cost of providing pensions is charged against profits on a systematic basis, with pension surpluses arising allocated over the expected remaining service lives of current employees. Differences between the amounts charged in the profit and loss account and payments made to the fund are treated as assets or liabilities.

Investments

Investments, other than investment properties, are stated at cost less provision for diminution in value if such a reduction is deemed to be of a permanent nature.

2. TURNOVER

Turnover comprises investment and rental income and amounts realised on secured loans.

3. OPERATING PROFIT

	2000	1999
	£	£
This is stated after charging:		
Director's remuneration		
- Aggregate emoluments	149,151	118,753
- Pension contributions	22,750	14,450
Auditors' remuneration	1,000	1,000

The director has pensions accruing under a defined benefits scheme.

4. TAXATION

No provision for taxation is considered necessary.

5. TANGIBLE FIXED ASSETS

	2000 £	1999 £
Cost at 1 February 1999	427,000	-
Additions at cost	-	427,000
Surplus on revaluation	148,000	-
Valuation at 31 January 2000	<u>575,000</u>	<u>427,000</u>

Tangible fixed assets comprise investment properties which were revalued by the director as at the balance sheet date on the basis of open market value.

6. INVESTMENTS

	2000 £	1999 £
Investment in subsidiary at cost	805,921	805,921
Other investments at cost	225,614	246,693
Less cost of disposals	<u>31,910</u>	<u>21,079</u>
	193,704	225,614
	<u>999,625</u>	<u>1,031,535</u>

The investment in subsidiary comprises a 100% holding in the ordinary share capital of McGregor Construction (Highlands) Limited, a company incorporated in Scotland and engaged in construction.

At 31 January 2000 the aggregate of the share capital and reserves of McGregor Construction (Highlands) Limited amounted to £1,240,695 (1999 - £1,160,401) and the profit after tax for the year then ended was £350,294 (1999 - £501,968).

McGregor Construction (Highlands) Limited has a 100% holding in the ordinary share capital of McGregor Construction Services (Highlands) Limited, a company incorporated in Scotland, which provides personnel services.

At 30 December 1999 the aggregate of the share capital and reserves of McGregor Construction Services (Highlands) Limited amounted to £41,222 (1998 - £29,892) and the profit after tax for the year then ended was £11,330 (1998 - £18,245).

During the year McGregor Construction Services (Highlands) Limited provided personnel services to Armbrook Investments Limited for which a charge of £182,688 (1999 - £144,667) was made.

Other investments comprise loans due to the company and secured over residential properties. Each loan is repayable when the property is sold.

7. DEBTORS

	2000 £	1999 £
Amounts due by group company: McGregor Construction (Highlands) Ltd	89,556	31,161
Sundry debtors	8,774	-
	<u>98,330</u>	<u>31,161</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 £
Bank overdraft (secured)	1,453,860	1,444,319
Accruals	18,257	13,409
	<u>1,472,117</u>	<u>1,457,728</u>

The bank has an unlimited inter-company guarantee by the company, McGregor Construction (Highlands) Limited and McGregor Construction Services (Highlands) Limited supported by;

a bond and floating charge over all of these companies;

a legal charge by the company over property owned by the company;

a standard security by McGregor Construction (Highlands) Limited over property owned by that company.

9. SHARE CAPITAL

	2000 £	1999 £
Authorised		
2,800 preferred ordinary shares of £1 each	2,800	2,800
25,200 ordinary shares of £1 each	<u>25,200</u>	<u>25,200</u>
Allotted, called up and fully paid		
25,200 ordinary shares of £1 each	<u>25,200</u>	<u>25,200</u>

10. REVALUATION RESERVE

	2000 £	1999 £
Surplus on revaluation of tangible fixed assets	<u>148,000</u>	<u>-</u>

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2000 £	1999 £
Profit on ordinary activities after taxation	50,870	31,968
Dividends paid	(30,000)	-
Surplus on revaluation of tangible fixed assets	148,000	-
Share capital issued	-	25,200
Capitalisation of reserves	-	(25,198)
	<u>168,870</u>	<u>31,970</u>
Opening shareholder's funds: Equity	31,970	-
Closing shareholder's funds: Equity	<u>200,840</u>	<u>31,970</u>

12. CONTINGENT LIABILITIES

Guarantee bonds have been issued by a bondsman on behalf of a group company, McGregor Construction (Highlands) Limited. In consideration of this there is a general agreement of indemnity by each of the group companies in favour of the bondsman.

13. PENSION SCHEME

The group operates a pension scheme providing benefits based on final pensionable pay. The pension scheme is set up under trust and the assets of the scheme are therefore held separately from those of the group.

The pension cost is calculated by the Actuary so as to spread the cost of pensions over the employees' working lives with the group (Projected Unit Credit Method). The last actuarial valuation was carried out as at 1 February 1999. The valuation assumptions used, compared to the last valuation, were amended to adopt a "market-related" approach. The principal assumptions used in the valuation were as follows:

Yield	5.75% / 6.25% per annum
Salary Increases	4.5% per annum
Pension Increases	3.0% / 2.5% per annum

The pension cost charged to the profit and loss account for the year was £22,750 (1999 - £14,450). The actuarial valuation at 1 February 1999 showed that the market value of the scheme's assets was £6,100,068 and the actuarial value of those assets represented 96% of the liability for benefits under the valuation method, for service to the valuation date and based on salaries projected to retirement at earlier exit.