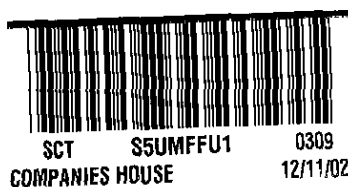


ARNBROOK INVESTMENTS LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JANUARY 2002

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 1SG

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 2002

The director submits his annual report together with the financial statements of the company for the year ended 31 January 2002.

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 £85,000 was paid during the year (2001 - £65,000).

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: 13 September 2002

ARNBROOK INVESTMENTS LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ARNBROOK INVESTMENTS LIMITED

We have audited the financial statements of Arnbrook Investments Limited for the year ended 31 January 2002 set out on pages 5 to 13. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Director's Responsibilities the company's director is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Director's 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 director's remuneration and transactions with the company is not disclosed.

We read the Director's Report and consider the implications for our report if we become aware of any apparent misstatements within it.

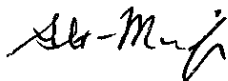
BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

Dated: 13 September 2002

ARNBROOK INVESTMENTS LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 JANUARY 2002**

	Notes	2002 £	2001 £
TURNOVER	2	175,500	105,996
Cost of sales		<u>17,060</u>	<u>10,152</u>
GROSS PROFIT		158,440	95,844
Income from shares in group undertakings		200,000	200,000
Gain on disposal of investment property	3	-	104,491
Administrative expenses		<u>255,213</u>	<u>229,205</u>
OPERATING PROFIT	4	103,227	171,130
Interest receivable		3,942	-
		<u>107,169</u>	<u>171,130</u>
Interest payable	5	<u>17,626</u>	<u>71,302</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		89,543	99,828
Taxation	6	<u>-</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		89,543	99,828
Dividend		<u>85,000</u>	<u>65,000</u>
		4,543	34,828
Retained profit brought forward		<u>62,468</u>	<u>27,640</u>
RETAINED PROFIT CARRIED FORWARD		<u>67,011</u>	<u>62,468</u>

CONTINUING OPERATIONS

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

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the profits for the current and previous year.

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 2002

	Notes	2002 £	2001 £
FIXED ASSETS			
Tangible assets	7	453,001	478,810
Investments	8	<u>972,413</u>	<u>989,473</u>
		1,425,414	1,468,283
CURRENT ASSETS			
Debtors	9	133,570	644,497
Cash in hand		<u>2</u>	<u>2</u>
		133,572	644,499
CREDITORS			
Amounts falling due within one year	10	<u>1,299,612</u>	<u>1,833,244</u>
NET CURRENT LIABILITIES		<u>1,166,040</u>	<u>1,188,745</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		259,374	279,538
CREDITORS			
Amounts falling due after more than one year	11	118,163	142,870
		<u>141,211</u>	<u>136,668</u>
CAPITAL AND RESERVES			
Called up share capital	12	25,200	25,200
Profit and loss account		67,011	62,468
Revaluation reserve	13	<u>49,000</u>	<u>49,000</u>
SHAREHOLDER'S FUNDS	14	<u>141,211</u>	<u>136,668</u>

ON BEHALF OF THE BOARD



AJ O'Neill - Director

Dated: 13 September 2002

The notes form part of these financial statements.

ARNBROOK INVESTMENTS LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JANUARY 2002

	Notes	2002 £	2001 £
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	A	414,534	(662,422)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid	(5,925)		(60,905)
Interest received	3,942		-
Interest element of finance lease payments	(11,701)		(10,397)
Dividends received from subsidiary undertaking	200,000		200,000
		186,316	128,698
CAPITAL EXPENDITURE			
Sale of tangible fixed assets	-		330,491
Purchase of tangible fixed assets	(15,094)		(4,831)
Realisation of secured loans	46,000		28,800
		30,906	354,460
EQUITY DIVIDENDS PAID		(85,000)	(65,000)
NET CASH INFLOW / (OUTFLOW) BEFORE FINANCING		546,756	(244,264)
FINANCING			
Capital element of finance lease payments		(18,570)	(94,553)
INCREASE / (DECREASE) IN CASH	B	528,186	(338,817)

Note A
Reconciliation of operating profit to net cash inflow / (outflow) from operating activities

Operating profit	103,227	171,130
Depreciation charges	40,903	31,477
Gain on sale of fixed assets	-	(104,491)
Dividends received from subsidiary undertaking	(200,000)	(200,000)
Profit on sale of secured loans	(28,940)	(18,648)
Decrease / (Increase) in debtors	517,026	(546,167)
(Decrease) / Increase in creditors	(17,682)	4,277
	414,534	(662,422)

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

Cash	2	2
Bank overdraft (secured)	(1,264,491)	(1,792,677)
	(1,264,489)	(1,792,675)
Change in year	528,186	(338,817)

Note C
Analysis of changes in net funds during the year

	At 1.2.01	Cash Flows	At 31.1.02
Cash at bank and in hand	2	-	2
Bank overdraft	(1,792,677)	528,186	(1,264,491)
	(1,792,675)	528,186	(1,264,489)

ARNBROOK INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JANUARY 2002

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.

Investment Properties

The company's properties are held for long-term investment. Investment properties are accounted for in accordance with SSAP 19 as follows:-

- (i) investment properties are revalued annually. The surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year: and
- (ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run.

Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the director believes that this policy of not providing depreciation or amortisation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation or amortisation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

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.

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. Depreciation is provided on plant, equipment and vehicles at rates between 10% and 33.33% calculated to write off the cost of the assets by equal annual instalments over their estimated useful lives taking account of their residual value.

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.

Hire Purchase and Leasing Commitments

Assets obtained under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligation is charged to profit and loss account over the period of the hire. Rentals paid under operating leases are charged against income as incurred.

2. TURNOVER

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

3. GAIN ON DISPOSAL OF INVESTMENT PROPERTY

	2002	2001
	£	£
Net proceeds on disposal	-	330,491
Less: Valuation as at 31 January 2000 (net carrying amount)	-	325,000
	-	5,491
Add: Transfer from Revaluation Reserve (Note 13)	-	99,000
	-	104,491

In the opinion of the director it was considered to be more appropriate to show the gain on disposal of the investment property on the face of the profit and loss account as the difference between the original cost and the net sale proceeds.

This is not in accordance with FRS 3 which requires that the gain on disposal of an asset should be accounted for in the profit and loss account by reference to the net carrying amount of the asset. Any past revaluation surplus in the revaluation reserve relating to such an asset should be dealt with as a reserve transfer and should not be taken through the face of the profit and loss account.

4. OPERATING PROFIT

	2002	2001
	£	£
This is stated after charging:		
Director's remuneration		
- Aggregate emoluments	167,164	140,994
- Pension contributions	30,000	28,000
Auditors' remuneration	1,000	1,000
Depreciation - owned assets	1,898	269
- assets held under hire purchase contracts	19,539	17,911
- assets held under a marine loan	19,466	13,297

The director has pensions accruing under a defined benefits scheme.

5. INTEREST PAYABLE

	2002 £	2001 £
Loan interest	6,364	-
Hire purchase interest	5,337	-
Bank interest	5,925	71,302
	<u>17,626</u>	<u>71,302</u>

6. TAXATION

No provision for taxation is considered necessary.

7. TANGIBLE FIXED ASSETS

	Heritable Property £	Plant and Equipment £	Motor Vehicles £	Total £
Cost or Valuation				
At 1 February 2001	250,000	182,129	78,158	510,287
Additions	-	15,094	-	15,094
Disposals	-	-	-	-
At 31 January 2002	<u>250,000</u>	<u>197,223</u>	<u>78,158</u>	<u>525,381</u>
Depreciation				
At 1 February 2001	-	13,566	17,911	31,477
Charge for year	-	21,364	19,539	40,903
At 31 January 2002	<u>-</u>	<u>34,930</u>	<u>37,450</u>	<u>72,380</u>
Net Book Value				
At 31 January 2002	<u>250,000</u>	<u>162,293</u>	<u>40,708</u>	<u>453,001</u>

Heritable Property comprises investment property revalued by the director as at the balance sheet date on the basis of open market value.

The motor vehicles are held under hire purchase contracts.

Included in the amounts for plant and equipment above are the following amounts relating to assets secured by a loan (Note 10):

	2002 £	2001 £
Cost	187,218	177,298
Aggregate Depreciation	<u>32,763</u>	<u>13,297</u>
Net Book Value	<u>154,455</u>	<u>164,001</u>
Depreciation provided during year	<u>19,466</u>	<u>13,297</u>

8. INVESTMENTS

	2002 £	2001 £
Investment in subsidiary at cost	805,921	805,921
Other investments at cost	183,552	193,704
Less cost of disposals	<u>17,060</u>	<u>10,152</u>
	166,492	183,552
	<u>972,413</u>	<u>989,473</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 2002 the aggregate of the share capital and reserves of McGregor Construction (Highlands) Limited amounted to £1,330,457 (2001 - £1,277,795) and the profit after tax for the year then ended was £252,662 (2001 - £237,100).

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 provided personnel services.

At 30 December 2001 the aggregate of the share capital and reserves of McGregor Construction Services (Highlands) Limited amounted to £2 (2000 - £55,785) and the profit after tax for the year then ended was £nil (2000 - £14,563).

During the previous year McGregor Construction Services (Highlands) Limited provided personnel services to the company for which a charge of £104,983 was made.

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

9. DEBTORS

	2002 £	2001 £
Amounts due by group company: McGregor Construction (Highlands) Ltd	120,094	271,277
Value added tax	905	-
Sundry debtors	<u>12,571</u>	<u>373,220</u>
	<u>133,570</u>	<u>644,497</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Bank overdraft (secured)	1,264,491	1,792,677
Loan (secured)	14,464	7,740
Obligations under hire purchase contracts	15,806	10,293
Accruals	<u>4,851</u>	<u>22,534</u>
	<u>1,299,612</u>	<u>1,833,244</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 and a standard security by McGregor Construction (Highlands) Limited over property owned by that company.

Secured on a boat, there is a marine loan which accrues interest at a rate of 1.35% per annum above Finance House Base Rate.

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 £	2001 £
Due within two to five years:		
Loan (Note 10)	57,857	37,314
Obligations under hire purchase contracts	<u>45,752</u>	<u>55,636</u>
	103,609	92,950
Due after more than five years		
Loan (Note 10)	<u>14,554</u>	<u>49,920</u>
	<u>118,163</u>	<u>142,870</u>

Obligations under hire purchase contracts are analysed over the period in which the instalments fall due.

Instalments due within one year are shown in Note 10.

Details of assets acquired under hire purchase contracts are shown in Note 7.

12. SHARE CAPITAL

	2002 £	2001 £
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>

13. REVALUATION RESERVE

	2002 £	2001 £
At 1 February 2001	49,000	148,000
Transfer on disposal of property	-	(99,000)
At 31 January 2002	<u>49,000</u>	<u>49,000</u>

14. RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	2002 £	2001 £
Profit on ordinary activities after taxation	89,543	99,828
Dividends paid	(85,000)	(65,000)
Transfer from revaluation reserve	-	(99,000)
	<u>4,543</u>	<u>(64,172)</u>
Opening shareholder's funds: Equity	<u>136,668</u>	<u>200,840</u>
Closing shareholder's funds: Equity	<u>141,211</u>	<u>136,668</u>

15. 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.

16. 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 charged to the profit and loss account for the year was £30,000 (2001 - £28,000).