QUAYLE MUNRO

HOLDINGS PLC

REPORT AND ACCOUNTS 2000

QUAYLE MUNRO

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Quayle Munro Holdings PLC is an independent Edinburgh-based investment banking group which specialises in advising the smaller company. It also has a significant practice in transactions involving the introduction of private sector capital and management to public sector enterprises, including projects under the Government's Private Finance Initiative.

Since the formation of Quayle Munro Limited in 1983, the Quayle Munro group has sought to make investments in suitable listed and unlisted companies.

The Quayle Munro group thus combines a specialist portfolio, whose emphasis is on the smaller growing company, and a corporate finance practice with significant expertise for its size. Through this unique combination the Group aims to generate continuing growth in net assets together with real dividend growth reflecting the results of fee earning activities.

Directors & Advisers

Directors
I. Q. JONES
(CHAIRMAN AND CHIEF EXECUTIVE)

J. C. ELLIOT
A. A. T. OSTROWSKI
A. C. RITCHIE
D. A. ROSS STEWART OBE
D. G. SUTHERLAND

Secretary
A. A. T. OSTROWSKI
8 CHARLOTTE SQUARE
EDINBURGH EH2 4DR

Bankers
BANK OF SCOTLAND
HEAD OFFICE,
THE MOUND,
EDINBURGH EH1 1YZ

Registrars
CAPITA IRG plc
REGISTRATION DEPARTMENT,
BALFOUR HOUSE
390/398 HIGH ROAD,
ILFORD IG1 1NQ

Auditors
ERNST & YOUNG
TEN GEORGE STREET,
EDINBURGH EH2 2DZ

Brokers
CHARTERHOUSE SECURITIES LTD
CITY PLACE HOUSE
55 BASINGHALL STREET
LONDON EC2V 5HD

Company Number
SC 72014

Website
www.quayle.co.uk

Ian Q. Jones

(Chairman and Chief Executive) is the co-founder of Quayle Munro Limited and is its Chief Executive. He became Chairman on 2nd November 1999. He is a Director of Chiltern Invadex plc, Morris Group Limited and Submersible Television Surveys Limited. He is also a Governor of Strathallan School and of Pitlochry Festival Society Limited.

Jo C. Elliot

(Executive) was appointed a Director in 1996. He has been an Executive Director of Quayle Munro Limited since 1988. He is a Director of Falkirk Schools Partnership Limited, KE Project Limited, LH Project Limited, Edinburgh High Income Trust plc and J W Galloway Limited and a Governor of Edinburgh College of Art. He is Managing Director of Quayle Munro Limited.

Anthony A. T. Ostrowski

(Executive) was appointed a Director in 1996. He has been an Executive Director of Quayle Munro Limited since 1993 and is Finance Director and Company Secretary.

Alan C. Ritchie

(Executive) qualified as a Chartered Accountant with Ernst & Young and joined Quayle Munro Limited as an Assistant Director in 1996. He was appointed an Executive Director in 1999.

Directors

Donald G. Sutherland
(Non-Executive) was appointed a Director in 1995 and was Chairman between 1996 and 1999. He is the senior independent Director. He was, until 1995, a member of the executive and Regional Managing Partner of Ernst & Young. His directorships include Murray Global Return Trust PLC and Alexander Russell plc.

David A. Ross Stewart OBE
(Non-Executive) has been a Director since 1980 and was Chairman between 1991 and 1996. He is also Chairman of Edinburgh High Income Trust plc and a director of Lothian Investment Fund for Enterprise Limited.

Moray D. Watt
(Assistant Director) joined Quayle Munro Limited in 1999.

Left to Right
D A Ross Stewart (Non-Executive)
M D Watt (Assistant Director)
J C Elliot (Executive)
A A T Ostrowski (Executive)
I Q Jones (Chairman and Chief Executive)
A C Ritchie (Executive)
D G Sutherland (Non-Executive)

Board Audit Committee

D. G. Sutherland (Chairman)

D. A. Ross Stewart

Board Remuneration Committee

D. G. Sutherland (Chairman)

D. A. Ross Stewart

Quayle Munro Holdings plc ("QMH") seeks, in Managing its Portfolio, to achieve Growth by

- **a mix of financial assets**

QMH holds listed and unlisted investments, investments in PFI project companies and may take positions in currency and other markets.

- **value in a range of markets**

QMH seeks opportunities for superior returns which may be available when the cost of an asset in the market stands temporarily at a discount to the value suggested by fundamental factors.

- **liquidity in its listed investments**

The size of QMH's investments in individual companies is normally held at a level where disposal, if required, should be achievable through the markets without delay.

- **experience in unlisted investments**

QMH has a very successful track record in unquoted investments. Its executive directors are available to support management teams in achieving above average corporate growth without over-emphasis on short term objectives.

Quayle Munro Limited ("QM") offers its clients

- **a track record of substantial transactions**

QM has won remits including blue book and Listing Rules work for quoted companies; a range of M & A work, capital raising and MBOs for unlisted companies and their shareholders; bus privatisation in Scotland and options for the introduction of private sector capital to Scottish water and sewerage services; the £1·5 billion privatisation of ScotRail and other major public sector responsibilities; and five signed PFI projects.

- **attention from senior people**

All QM's executives currently operate at Director or Assistant Director level and bring to bear a full range of commercial and professional skills. The size of the team allows the Director responsible to remain closely in touch with the client throughout the transaction.

- **the capacity to invest in transactions where it is financial adviser**

QM approaches financial advisory remits, whether PFI or private sector, with the sole objective of securing the optimum result for its client. As part of this service, in suitable cases QMH will support the transaction by investment on its own account, usually alongside other investors and on the best terms available to the client in the market place.

Chairman's and Chief Executive's Statement

On Behalf of the Board I can report a year which, in profit terms, was disappointing but nonetheless has, I believe, laid the foundations for progress in the future.

Results

The Group profit before taxation was £919,000 and this compares with £1,744,000 for the previous record year, a fall of 47 per cent.

The fall in pretax profits was due to a combination of lower corporate finance fee income, losses on foreign exchange dealing and a reduced level of profits from the sales of fixed asset investments. However, income from investments increased. There was a reduction in operating charges which was due largely to a reduction in the executive bonus.

Earnings per share were 28·4p compared with 43·7p last year, a fall of 35 per cent. The total return per share, which comprises earnings per share plus the increase in the value of the Group's investment portfolio, the revaluation gain on the property and taxation on gains from sales of investments charged directly to reserves, was 39·6p compared with 59·3p the previous year.

During the year, and after payment of the dividend, net assets per share increased to 402p as compared with 380p as at 30th June 1999, a rise of 5·7 per cent.

In view of the continuing growth in net worth and a satisfactory continuing level of activity the Directors are pleased to recommend a final dividend of 9·5p net, making 14·25p net for the year as a whole compared with 13·5p for the previous year, a rise of 5·6 per cent.

Corporate Finance

The detailed corporate finance report for the year is contained in the Report of the Managing Director of Quayle Munro Limited. During the year there was considerable emphasis on the development of our practice in the Private Finance Initiative which should be reflected in strong revenue generation in the current and future years. In the private sector we have been conscious of changing trends and have as a result been extending our range into the new economy and, in particular, into pure venture capital. We shall, during the course of the current year, be strengthening our professional team to cover not only the growth in our work under the Private Finance Initiative but also our developing interest in venture capital support.

Group Assets

As at the year end, the disposition of our gross assets, with the 1999 equivalents, was as follows:

	2000 £ million	1999 £ million
Tangible fixed assets	1·5	1·3
Listed investments	4·1	5·6
Unlisted investments	6·5	5·8
Cash	1·8	1·1
Other	1·1	0·8
Total	15·0	14·6

Our unlisted portfolio has continued to make steady progress and in particular our major investment, Morris Group, announced on 12th August 2000 they had completed the acquisition of the housebuilding division of Allen PLC at a price of £24·3 million. This will significantly increase the size of Morris, which has been an investment for many years and which has continued to make steady progress. Although housebuilders are not well rated in the stock market at present, we believe that in due course a re-rating will occur. With the increased size of Morris and its historic track record there is potential for a significant uplift in value. We have made an adjustment to the valuation this current year to reflect continued progress and increased profitability. The other unlisted investments continued to trade more or less satisfactorily. Submersible Television Surveys Limited is having a frustrating year, because of contract delays and reorganisation, but we anticipate that the season 2001 will show further growth in profits.

We have continued to maintain a portfolio of listed investments although at the year end this had reduced somewhat compared with the figure at the previous year end and resulted in a corresponding increase in cash. We regard this portfolio as reserve capital, and it is invested largely in leading, traditional companies. The listed portfolio has been maintained for just over two years now and, as a natural cash generator, we have decided to review whether or not this excess capital should more properly be in the hands of our shareholders, who can decide which investments are appropriate for their own long term requirements.

We have been somewhat frustrated by the failure of the Company's share price to recognise last year's good results and the continued steady increase in net assets over several years. Accordingly, having looked at a number of initiatives, we have decided it would be appropriate to return what we might consider to be excess capital back to shareholders by making distributions of the amount by which we regard our net assets as exceeding our requirements for capital in our professional business. With this in mind we have decided to declare a special dividend in respect of the new financial year of 50p per share to be payable on 25th January 2001 to shareholders on the register at 12th January 2001. With the natural cash generation which we may reasonably expect it is likely that in future years we will contemplate the return of excess capital to shareholders by way of special dividend payments until such time as we reach what may be considered the optimum level of net resources compatible with the continued growth of our professional activities.

On 28th April 2000 it was announced that Uberior Investments PLC, a wholly owned subsidiary of Bank of Scotland, had purchased a 29·6% interest in the Company following a sale by a single private shareholder. This transaction has been welcomed by the Board as it will be the foundation for a closer working relationship with the Bank in certain specialist areas including the Private Finance Initiative. Quayle Munro has agreed in principle with Bank of Scotland to create a fund of £10 million for investment in PFI projects. Quayle Munro will manage this fund for which they will provide 25% of the capital, with Bank of Scotland providing 75%. A closer working relationship with the Bank, particularly in PFI matters, will support the growth of our PFI activity which my colleague, Jo Elliot, will refer to in his report on Quayle Munro Limited's activities during the year, and the particularly strong prospects we now see for work in this specialist area of public financing and advisory support.

The Executive

During the year Robert Legget, who has been a Director of Quayle Munro Limited and, latterly, Quayle Munro Holdings PLC, resigned and I would like to take this opportunity to thank Robert for his service to the Company over many years.

It remains, finally, to thank my colleagues for the sustained effort of the last year. Whereas the year's results do not in revenue terms reflect that commitment, the hard work which has been put in is much to their credit and we can reasonably expect growth and development of income in the immediate future.

I. Q. Jones
Chairman and Chief Executive
14th September 2000

An exterior view of Graeme High School, Falkirk, which was officially opened in August 2000 along with the four other schools in the Falkirk Schools PFI Project.

The swimming pool at Bo'ness Academy, one of the five schools in the Falkirk Schools PFI Project.

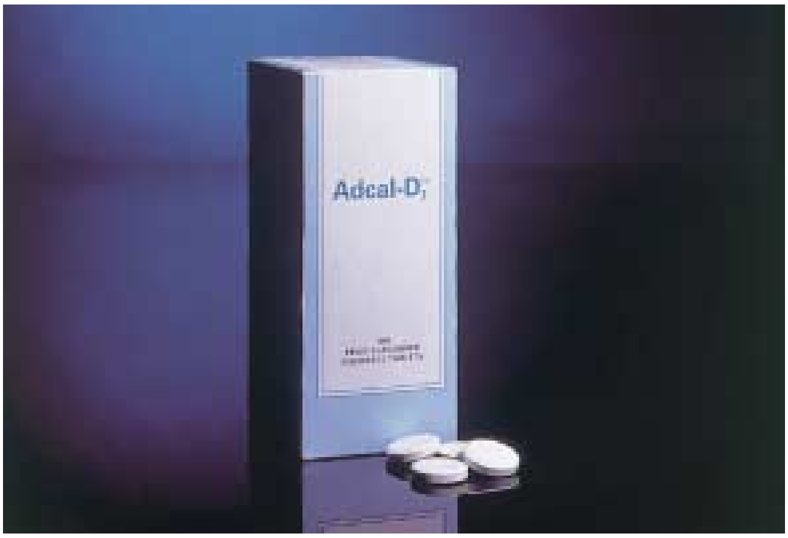
Report of the Managing Director

of Quayle Munro Limited

The Year has been one of Steady Development, with increasing momentum in both our PFI and purely private sector activities.

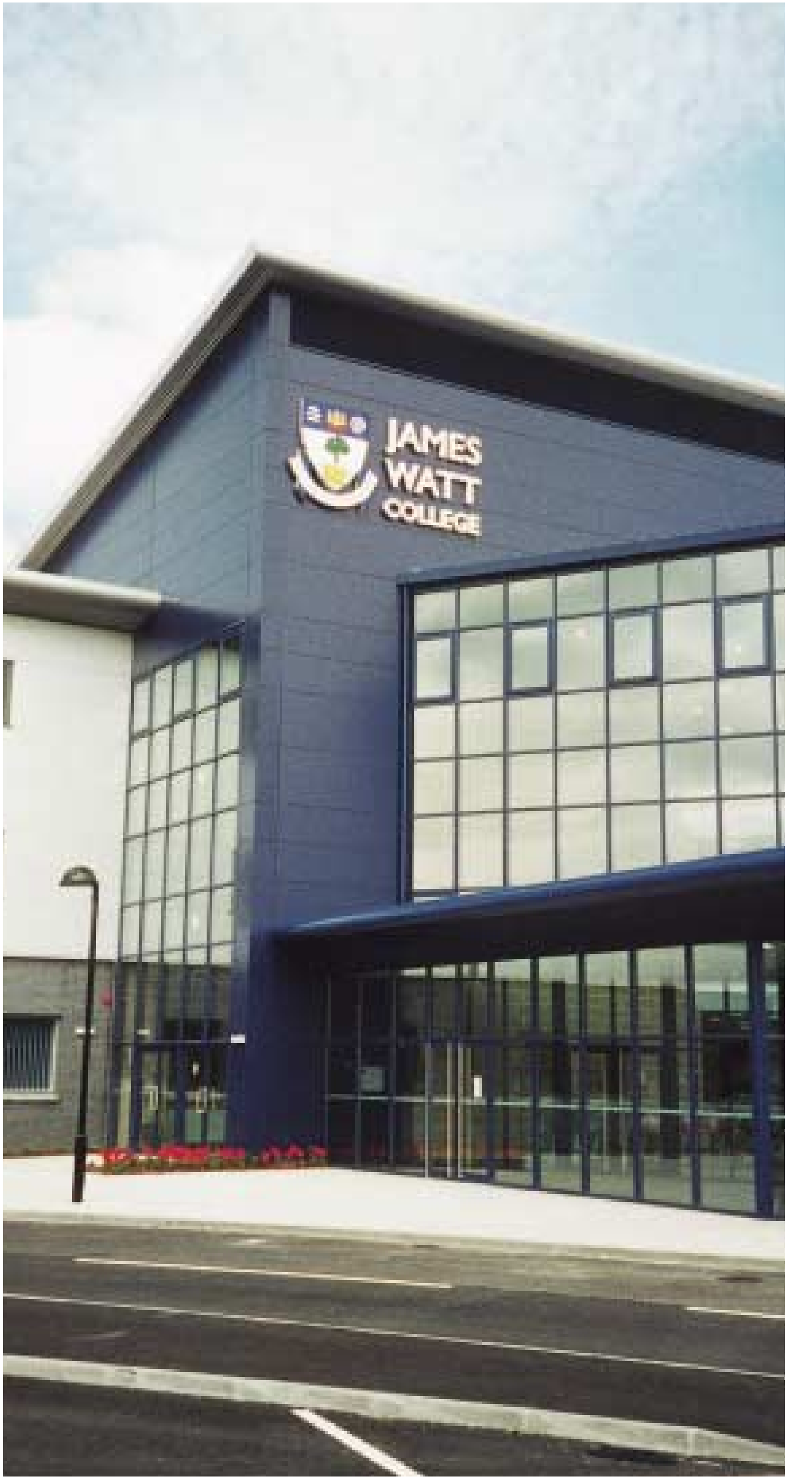
In our private sector work we continue to undertake a wide variety of traditional mergers and acquisitions remits. Within that general scope we are working increasingly for technology companies. The core of our business is in arranging and providing the finance for growing companies, and it is in the technology sector of the economy where capital requirements are greatest. In the first place we provide financial advice, raising capital in the appropriate form, whether debt or equity, from third parties. However, as an added service to our clients, Quayle Munro is ready to take equity stakes, normally as a 'follower' behind a lead investor. This readiness to invest in situations which we are promoting on behalf of the company facilitates a commitment which goes beyond that of a disinterested adviser. It also provides the foundation for a long term relationship with the company where Quayle Munro, as shareholders, become genuine business partners. Our ability to provide both money and advice is a unique selling point in the market and one on which we continue to base our business. From an investment standpoint, this means that our growing unlisted portfolio is composed of companies we know well, where in the majority of cases we have a financial advisory responsibility in addition to Board representation.

Our largest transaction of the year was in raising equity for Strakan Group plc, a young but broadly based pharmaceutical company which is developing innovative drug delivery systems in addition to developing and marketing a portfolio of drugs with specific emphasis on the treatment of certain skin and bone conditions.



Adcal D3 has been launched by Strakan Group plc in the UK. It is designed to mitigate the effects of osteoporosis.

We also worked on a number of other transactions, two of which closed after the end of the financial year: the sale of Tullis Neill, a specialist printer; and the acquisition by Morris Homes of the house building division of Allen PLC covered in the Chairman's Statement.



Front elevation showing the atrium of the new North Ayrshire campus for James Watt College at Kilwinning. The college was completed in June 2000 and the first student enrolment took place in August 2000.

Our PFI activities have continued to benefit from our particular focus on this area of business. As in our private sector work we offer construction contractors, who are the leaders of PFI consortia a combination of advice and money. Our prime focus is as financial advisers, nominally to the special purpose PFI companies set up to run projects but in practice to the consortium members who are the shareholders in these companies. However, our willingness to invest in special purpose companies (SPC's) is attractive because it establishes our commitment as partner rather than simply adviser. For smaller projects third party institutional equity for SPCs is less readily available, and our participation in this role fills a gap.

As reported last year, we closed three PFI projects on the private sector side in 1998/9. Quayle Munro's ongoing responsibilities for the three project companies include financial administration, the services of a non-executive director and financial advice. Of the three, two have now handed over the buildings on schedule: the new North Ayrshire Campus of James Watt College in June 2000 and the five new schools for Falkirk Council opened by the First Minister on 23rd August 2000.

The new Larkfield Unit for Argyll & Clyde Acute Hospitals NHS Trust is nearing completion. Built in the grounds of Inverclyde Royal Hospital, the new unit will house 120 geriatric beds.

The third project, the Larkfield Unit at Inverclyde Royal Hospital, is due for handover early in 2001 and is currently running well ahead of schedule.

PFI projects are long in gestation, typically twelve to eighteen months from the start of prequalification procedures to financial close. Over the year our project pipeline has filled up satisfactorily, and we are currently advising bidding consortia at the stage of preferred or sole bidder on four projects to a total capital value of approximately £30 million, and at short listed stage on a further six projects to a total capital value of approximately £150 million.

A further strand to our PFI activities is provision of advice to public sector bodies. Over the last few months we have won a total of five public sector remits for financial advice on PFI/PPP procurements: with Midlothian Council for their Dalkeith Schools project; with Lothian University Hospitals NHS Trust for procurement of equipment; for the development of an e-commerce solution for the Scottish Tourist Board; for a community healthcare project; and for a university accommodation project. These remits give us a strong forward order position, which is a useful counter-balance to the uncertainties inherent in advising private sector clients through a competitive bid process.

We therefore see our strategy of stronger focus bearing fruit and we are working now to increase the capacity of the team by suitable appointments in order not to be constrained by lack of capacity in exploiting the market position which we have created.

J. C. Elliot
Managing Director of
Quayle Munro Limited
14th September 2000

New Craigs Hospital, Inverness, handed over in July 2000. Quayle Munro acted as financial adviser to Highland Communities NHS Trust for this PFI project.

The ten largest investments account for 70% of the value of portfolio and are as follows:

Company name	Cost of investment £'000	Closing mid-market or directors' valuation £'000	Percentage of total portfolio at valuation %
Morris Group Limited	508	2,963	27·9
Submersible Television Surveys Limited	431	1,367	12·9
Falkirk Schools Partnership Limited	749	749	7·1
Harrock PLC	420	420	4·0
LH Project Limited (Larkfield Hospital)	360	360	3·4
BG Group PLC*	302	346	3·3
Barclays PLC*	263	329	3·1
SmithKline Beecham PLC*	249	303	2·8
Scottish Power plc*	286	297	2·8
KE Project Limited (James Watt College)	280	280	2·6
	3,848	**7,414**	**69·9**

* Listed on The London Stock Exchange

Morris Group Limited

The activities of the Morris Group Limited are the construction and sale of houses to the private market and the purchase and sale of land, in the North West of England.

Submersible Television Surveys Limited

Submersible Television Surveys Limited is based in Aberdeen and provides specialised underwater inspection and intervention services utilising a fleet of remotely operated vehicles.

Falkirk Schools Partnership Limited

Formed as a holding company for Class 98 Limited, Falkirk Schools Partnership Limited is Quayle Munro Holdings PLC's largest investment in a PFI company to date. Class 98 Limited has built and is providing facilities management for five secondary schools for Falkirk Council over a period of 25 years. The schools opened for the academic year beginning in August 2000.

Group Investment Portfolio
(CONTINUED)

Harrock PLC

The company was formed to acquire Wainhomes, a housebuilder, operating chiefly in the North West of England but also in Yorkshire and the South of England.

LH Project Limited

The company was formed to build and maintain Larkfield Hospital for Argyll & Clyde Acute Hospitals NHS Trust under the PFI. The facility is due to open in February 2001 and will be operated by the company for a period of 25 years.

BG Group PLC

The principal activity of the Group is managing the development and operation of long-term capital assets across the gas chain, from exploration and production to transmission, distribution, LNG manufacture and transportation, storage, power generation and gas market development. The company is a constituent of the FTSE 100.

Barclays PLC

Barclays PLC is engaged in banking, financial and related services in the UK and overseas. The company is a constituent of the FTSE 100.

SmithKline Beecham PLC

SmithKline Beecham PLC is engaged in the discovery, development, manufacture and marketing of pharmaceuticals, vaccines, over-the-counter medicines, health related consumer products and the provision of healthcare services. The company is a constituent of the FTSE 100.

Scottish Power plc

The principal activities of the Group are the generation, transmission, distribution and supply of electricity in both the UK and the US, the supply of gas, water and wastewater services, telecom based services, internet services and appliance retailing in the UK, and coal mining in the US. The company is a constituent of the FTSE 100.

KE Project Limited

The building, maintenance and facilities management of the North Ayrshire Campus of James Watt College of Further and Higher Education has been carried out through KE Project Limited under the PFI. The Campus is located in Kilwinning and was handed over in June 2000. It will be operated by the company for a period of 25 years.

Report of the Directors

and

Accounts

2000

QUAYLE MUNRO
HOLDINGS PLC

Report of the Directors

to the twentieth annual general meeting of the company

Directors

The Directors of the Company during the year ended 30th June 2000 were as follows:

I. Q. Jones (Chairman and Chief Executive)

J. C. Elliot (Executive)

R. W. L. Legget (Executive) – resigned 24th February 2000

A. A. T. Ostrowski (Executive)

A. C. Ritchie (Executive) – appointed 8th July 1999

D. A. Ross Stewart OBE (Non-Executive)

D. G. Sutherland (Non-Executive)

In accordance with the Articles of Association D. G. Sutherland and J. C. Elliot retire by rotation and, being eligible, offer themselves for re-election.

Accounts and Dividends

The Directors present their report and submit the audited accounts of the Group for the year ended 30th June 2000. The profit before tax of the Group for the year was £919,000. After a tax credit of £53,000 the profit for the year attributable to the ordinary shareholders amounted to £972,000.

The Directors recommend a final dividend of 9·5p per ordinary share which, with the interim dividend of 4·75p per ordinary share paid on 6th April 2000, makes a total of 14·25p per ordinary share amounting to £490,000 for the year. The final dividend will be paid on 10th November 2000 to shareholders on the register on 13th October 2000.

Review of the Business and Future Developments

The principal activities of the Group are the provision of corporate finance advisory services, asset management and the making of investments as principal in companies in the U.K. and elsewhere. A review of the business and future developments is contained in the Chairman's and Chief Executive's Statement and in the Report of the Managing Director of Quayle Munro Limited.

Share Option Schemes

An executive share option scheme has been established which extends to selected employees within the Group including Directors. The scheme has been approved by the Inland Revenue under paragraph 1, Schedule 9 of the Income and Corporation Taxes Act 1988. In addition, an unapproved share option scheme was adopted on 15th March 1995. Under the terms of both of these schemes the Directors are currently empowered to issue options to subscribe for shares, which in aggregate shall not exceed 15% of the issued ordinary share capital of the Company.

SHARE CAPITAL

During the year a total of 46,757 ordinary shares of 10p each were allotted pursuant to exercise of share options. Further details about these changes in share capital are disclosed in note 20 to the accounts.

DIRECTORS' INTERESTS

The Directors' interests (all beneficially held except those marked with an asterisk which are held as trustee) in the Ordinary 10p shares of the Company, including shares over which options have been granted under the terms of the Company's share option schemes, were as follows:

	Ordinary shares of 10p each		Executive share options					
	at 30.6.99 or date of appointment	at 30.6.00	Options at 30.6.99 or date of appointment	Options at 30.6.00	Date of grant	Option price (p)	Nominal Exercise date From	To
I. Q. Jones	474,341	475,840	23,387	23,387	21.3.95	158	21.3.98	20.3.02
			34,382	34,382	21.10.97	261	21.10.00	20.10.04
			33,000	33,000	18.12.98	245	18.12.01	17.12.05
			–	22,383	23.9.99	280	23.9.02	22.9.06
J. C. Elliot	306,366	347,865	20,557	20,557	21.10.97	261	21.10.00	20.10.04
	116,000*	116,000*	46,757	46,757	18.12.98	245	18.12.01	17.12.05
			–	14,247	23.9.99	280	23.9.02	22.09.06
A. A. T. Ostrowski	29,290	30,395	33,000	33,000	9.6.93	118	9.6.96	8.6.03
			10,053	10,053	21.3.95	158	21.3.98	20.3.05
			14,219	14,219	21.10.97	261	21.10.00	20.10.04
			–	8,516	23.9.99	280	23.9.02	22.9.06
A. C. Ritchie	–	857	9,487	9,487	21.10.97	261	21.10.00	20.10.07
			–	4,734	23.9.99	280	23.9.02	22.9.06
			–	1,871	23.9.99	280	23.9.02	22.9.09
D. A. Ross Stewart	10,000	15,000	–	–	–	–	–	–
D. G. Sutherland	2,000	4,000	–	–	–	–	–	–

*held as trustee

On 23rd September 1999, R. W. L. Legget exercised options over 33,000 ordinary shares at an exercise price of 118p per share and options over 3,757 ordinary shares at an exercise price of 158p per share. The market price on that date was 279p giving rise to a gain of £57,676.

The option price is the price at which the option was granted. It is set by the Directors but is not less than the average market price of the shares over the last five dealing days immediately preceding the date of grant.

The highest mid-market price of the shares during the year was 280p and the lowest mid-market price during the year was 225p. The mid-market price at the close of business on 30th June 2000 was 252·5p.

There have been no alterations in the shares or options held by directors shown above between 30th June 2000 and 14th September 2000. None of the Directors held any shares in any subsidiary company during the period.

Report of the Directors
(CONTINUED)

Other Substantial Interests in Ordinary Shares of the Company

The Directors are aware of the following interests in 3% or more of the issued Ordinary Share Capital of the Company at 14th September 2000 other than the Directors' interests set out above:

Uberior Investments PLC	1,019,550	29·58%
The Waterloo Corporation	367,234	10·65%
D. M. Munro	233,482	6·77%

Creditor Payment Policy and Practice

Payment terms are agreed at the outset of a transaction and are adhered to. There is a consistent policy that bills will be paid in accordance with the contract, and there are no alterations to payment terms without prior agreement. At 30th June 2000 the Company's trade creditors represented 5 days purchases.

Risk Management

The following information is given by the Company in accordance with FRS 13 "Derivatives and other Financial Instruments: Disclosures" to discuss the nature of the financial risks faced by the Company and the strategies adopted to deal with those risks. The major risks associated with the Company are market risk, liquidity risk, interest rate risk and cash flow risk. The Company has established a framework of managing these risks which evolves continually as the Company's investment activities change in response to market developments.

Market risk arises in the listed investment portfolio and is managed through investment guidelines agreed by the Board and is discussed at each Board meeting. A significant portion of the total investment portfolio is in unlisted investments. This is actively managed by the management team. With one exception all investments are sterling denominated. Foreign currency risk arises through one unlisted investment, which is not considered to be material.

Liquidity risk is managed by investing in listed investments and by retaining cash balances.

The Company enters into derivative contracts for trading purposes. Risk exposures arising from such trading are managed within limits approved by the Board. During the year the Company entered into certain forward contracts in foreign currency option agreements. At the year end the Company had no exposure to derivative contracts. All such trading is reviewed by the Board.

The Company's uninvested cash balances earn interest at a floating rate. The benchmark rate that determines the interest received on cash balances held is 7 day LIBOR.

The Company also has a floating rate loan which matures in 2014.

Annual General Meeting

The Directors consider it advisable that they continue to have a general power to make allotments of shares for cash to persons other than existing shareholders of a nominal amount not exceeding 5% of the issued share capital of the Company. For this purpose a resolution will be proposed as a Special Resolution at the Annual General Meeting as set out in item 6 of the Notice of Meeting. If granted, this power will lapse at the conclusion of the next following Annual General Meeting of the Company or on 3rd February 2002, whichever is the earlier.

Recommendation

The Directors consider that the renewal of the Directors' power to allot shares for cash otherwise than to existing shareholders is in the best interests of shareholders as a whole. The Directors, accordingly, unanimously recommend shareholders to vote in favour of Resolution 6 at the Annual General Meeting as they themselves intend to do in respect of their own beneficial holdings aggregating 873,957 shares (representing 25·35% of the current issued ordinary share capital of the Company).

Auditors

Ernst & Young have expressed their willingness to continue in office as auditors. Accordingly, a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By order of the Board
A. A. T. Ostrowski
Secretary
14th September 2000

Corporate Governance

The Group is committed to, and the Board is accountable for, high standards of corporate governance. This statement describes how the principles of corporate governance are applied to the Group and outlines the Group's compliance with the provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel.

Throughout the year ended 30th June 2000 the Group has been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance with certain exceptions which are referred to below.

As permitted by the Listing Rules, the Group has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

Board

At the year end the Board comprised the Chairman and Chief Executive (in a combined role), two Non-Executive Directors, and three other Executive Directors. The Non-Executive appointments are considered independent. The senior Non-Executive Director is D. G. Sutherland. Between 2nd November 1999 and 30th June 2000 the positions of Chairman and Chief Executive were combined to facilitate management development. Code Provision A.3.1 of the Combined Code was not complied with in the period between 8th July 1999 and 24th February 2000, in so far as the number of Non-Executive Directors fell below the level of one-third of the Board.

Biographies appear on pages 2 and 3 which demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which are vital to the success of the Group. Non-Executive Directors are appointed as appropriate. The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out on page 25 and a statement on going concern is given on page 23.

The Board has a formal schedule of matters specifically reserved to it for decision.

The Board meets regularly, reviewing trading performance, ensuring adequate funding and setting and monitoring strategy. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of Board Meetings. The Chairman ensures that the Directors take independent professional advice as required.

Remuneration Committee

This Committee meets at least twice a year. Members of the Committee are detailed on page 3. It is responsible for reviewing and endorsing the senior management and organisational structure, reviewing and being satisfied with the arrangements for succession planning and management development, recommending the remuneration of the Non-Executive Directors for the approval of the Board, and determining the remuneration of the Executive Directors and reporting where appropriate to the Board. For these purposes, "remuneration" means all terms of an employment package, including contractual terms, salary, pension arrangements, participation in share option schemes, profit sharing, and incentive remuneration schemes and all other bonuses and benefits.

Further details of the Group's policies on remuneration, service contracts and compensation payments are given under "Report on Directors' Remuneration" below.

Audit Committee

This Committee is appointed by the Board and comprises the Non-Executive Directors. It normally meets twice a year and provides a forum for reporting by the Group's external auditors. Members of the Committee are detailed on page 3.

The Committee assists the Board in observing its responsibility for ensuring that the Group's financial and accounting systems provide accurate and up-to-date information on its current financial position and that the Group's published financial statements represent a true and fair reflection of this position. It also ensures that appropriate accounting policies, controls and compliance procedures are in place, advises the Board on the appointment of external auditors and on their remuneration and discusses the nature, scope and results of the audit with external auditors. It also keeps under review the cost effectiveness and the independence and objectivity of the external auditors. Code Provision D.3.1 of the Combined Code has not been complied with, in so far as the Audit Committee comprised only two Non-Executive Directors as this was considered adequate for a small company.

Appointments to the Board

This Board is responsible for the approval of candidates for appointment to the Board, having regard to the balance and structure of the Board. Code Provision

A.5.1 of the Combined Code has not been complied with, in so far a nomination committee has not been established on account of the size of the Company.

Relations with Shareholders

Communications with shareholders are given high priority. The Report on pages 9 to 11 includes a detailed review of the business and future developments.

The Board uses the Annual General Meeting to communicate with private investors and welcomes their participation. As Chairman of both the Audit and Remuneration Committees, the Senior Non-Executive Director will be available at Annual General Meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 3rd November 2000 can be found in the Notice of Meeting enclosed with this Report.

Internal Financial Control

The Directors are responsible for establishing and maintaining the Group's systems of internal financial control and for monitoring their effectiveness. These systems of control can provide only reasonable and not absolute assurance against material financial misstatement or loss.

The key elements are:

- A clearly defined organisation structure;
- The preparation of detailed budgets, which allow management to monitor key activities and risks and the progress towards financial objectives set for the year;
- Periodic reviews of performance compared with budgets and forecasts;
- Regular executive meetings to monitor and guide the Group's performance;
- Clearly defined capital investment guidelines.

The Directors confirm that they have reviewed the effectiveness of the Group's system of internal financial control during the year. The Directors consider the establishment of an internal audit function to be unnecessary.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial control to cover all controls including financial, operational, compliance, and risk management.

"Internal Control Guidance for Directors on the Combined Code" (the Turnbull guidance) was published in September 1999. However, the Directors have taken advantage of the transitional rules and have continued to review and report upon internal financial control in accordance with the ICAEW's 1994 guidance "Internal

Control and Financial Reporting". Nevertheless, the Board has established procedures necessary to implement the Turnbull guidance with effect from 1st July 2000 such that they can fully comply with it for the year ending on 30th June 2001.

Going Concern

After making appropriate enquiries, the Directors have a reasonable expectation the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they adopt the going concern basis in preparing the accounts.

Report on Directors' Remuneration

The members of the Remuneration Committee are detailed on page 3. Whilst the Committee determines the remuneration and contractual conditions of the Executive Directors, the Board as a whole determines the remuneration of all the Non-Executive Directors.

Remuneration Policy

The policy objectives of the Remuneration Committee are to seek to ensure that Executive Directors and senior executives are fairly rewarded for their contribution and that the Group is able to recruit and retain highly qualified and motivated executives. The Group aims to meet these objectives through a remuneration package which includes salary, benefits in kind, annual and long-term incentives as well as other elements as provided in the service contracts or Group policy. The components of the remuneration package are described below.

Salary and Benefits

Individual salaries of Directors and other senior executives are reviewed annually and adjusted by reference to individual performance and market factors. Details of the emoluments of the Directors are set out on page 36. Benefits in kind include the provision of a fully expensed company car and private health insurance.

Annual Incentives

During the year, the Executive Directors participated in an annual incentive scheme. Under this the performance measures used to determine the level of any bonus earned are both individual and corporate. The corporate measure is profit before tax. Executive Directors also qualify, along with other eligible employees, to exchange part of the bonus earned for participation in an Inland Revenue Approved Profit Sharing (Share Ownership) Scheme.

Long-Term Incentives

Longer term incentives are in the form of share options. The aggregate of the market values of share options that can be granted to each Director cannot exceed four times the annual rate of remuneration. It is the policy of the Remuneration Committee to phase the granting of options over a period of time. Information on share options is presented on page 17.

Pensions

The Executive Directors are members of the Quayle Munro Limited Retirement Benefit Scheme which is a defined benefit scheme. Contributions by Executive Directors, other than the Chief Executive, and other employees amount to 3% of base salary and the Group is responsible for any additional cost. Base salary only qualifies for pension purposes.

Retirement benefits will provide the Executive Directors, at normal retirement age, with a pension of up to two-thirds of their pensionable salary, subject to Inland Revenue limits and other statutory rules. Non-Executive Directors are not members of the pension scheme.

Service Contracts

All of the Executive Directors of the Group at 30th June 2000 apart from A. C. Ritchie have service contracts, which stipulate two years' notice. Whilst not strictly in compliance with Code Provision B.1.7 of the Combined Code, the Remuneration Committee considers that notice periods of two years are reasonable and in the interests of both the Company and the individuals. Code Provision A.6.2 of the Combined Code has not been complied with, in so far as the Articles of Association do not require the Chief Executive to retire by rotation on the grounds that the Company has a policy of rolling contracts for its Executive Directors.

The Non-Executive Directors do not have service agreements. Code Provision A.6.1 of the Combined Code has not been complied with, in so far as the Non-Executive Directors are not appointed for specific terms on the grounds that they are required by the Articles of Association to retire by rotation.

Statement of Directors' Responsibilities in Respect of the Accounts

Company Law Requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that year. In preparing those accounts the Directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent; and

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the accounts comply with the Companies Act. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

TO THE SHAREHOLDERS OF QUAYLE MUNRO HOLDINGS PLC

We have Audited the Accounts on pages 27 to 47, which have been prepared under the historical cost convention, as modified by the revaluation of property and fixed asset investments, and the accounting policies set out on pages 32 and 33.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 25, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, 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 the information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance statement on pages 20 to 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to form an opinion on the effectiveness of either the Group's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the Corporate Governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Audit 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 Group'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 mis-statement, 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 affairs of the Company and of the Group as at 30th June 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Edinburgh
14th September 2000

Group Profit and Loss Account

FOR THE YEAR ENDED 30TH JUNE 2000

	Notes	2000 £'000	1999 restated £'000
Turnover	2	**665**	2,089
Movements in work in progress		**174**	(426)
		839	1,663
(Loss)/gain on trading in financial instruments		**(140)**	191
Other operating charges	3	**(1,221)**	(1,629)
Operating (Loss)/Profit		**(522)**	225
Profit on sales of fixed asset investments		**561**	982
Income from investments	4	**849**	421
Interest receivable		**73**	166
Loan interest payable		**(42)**	(50)
Profit before Taxation		**919**	1,744
Tax credit/(charge)	8	**53**	(191)
Profit attributable to Members of Parent Company		**972**	1,553
Dividends on equity shares	9	**(494)**	(459)
Retained Profit for the Year	22	**478**	1,094
Basic Earnings per Share	11	**28·4p**	43·7p
Diluted Earnings per Share	11	**28·2p**	42·8p

Group Balance Sheet

AS AT

30TH JUNE 2000

	Notes	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Fixed Assets					
Tangible assets	12		**1,453**		1,289
Investments – listed		**4,146**		5,615	
– unlisted		**6,464**		5,811	
	13		**10,610**		11,426
			12,063		12,715
Current Assets					
Debtors	15	**806**		703	
Financial instruments held for trading		**–**		64	
Work in progress		**216**		42	
Taxation recoverable	8	**91**		1	
Short term deposits and cash at bank	16	**1,814**		1,100	
		2,927		1,910	
Creditors: Amounts falling due within one year					
Bank loan	17	**43**		43	
Creditors	18	**222**		620	
Taxation payable	8	**–**		139	
Proposed dividends		**327**		306	
		592		1,108	
Net Current Assets			**2,335**		802
Total Assets less Current Liabilities			**14,398**		13,517
Creditors: Amounts falling due after more than one year					
Bank loan	17		**(553)**		(595)
Provisions for Liabilities and Charges					
Deferred taxation	19		**(2)**		(2)
Total Net Assets			**13,843**		12,920
Capital and Reserves					
Called up share capital	20		**345**		340
Share premium account	21		**648**		592
Revaluation reserve	22		**1,821**		1,576
Other reserves	22		**1,356**		1,356
Profit and loss account	22		**9,673**		9,056
Equity Shareholders' Funds	23		**13,843**		12,920

The accounts on pages 27 to 47 were approved by the Board of Directors on 14th September 2000 and are signed on their behalf by:

I. Q. Jones, Chairman and Chief Executive

Company Balance Sheet

as at 30th June 2000

	Notes	2000 £'000	2000 £'000	1999 £'000	1999 £'000
Fixed Assets					
Investments – unlisted			**6,466**		5,814
– subsidiary undertakings			**3,373**		3,373
	13		**9,839**		9,187
Current Assets					
Debtors	15	**263**		100	
Financial instruments held for trading		**–**		64	
Taxation recoverable	8	**66**		–	
Amounts due by subsidiary undertakings		**3,331**		3,922	
Short term deposits and cash at bank		**1,242**		803	
		4,902		4,889	
Creditors: Amounts falling due within one year					
Creditors	18	**40**		25	
Taxation payable	8	**–**		120	
Amounts due to subsidiary undertakings		**2,741**		2,732	
Proposed dividends		**327**		306	
		3,108		3,183	
Net Current Assets			**1,794**		1,706
Total Net Assets			**11,633**		10,893
Capital and Reserves					
Called up share capital	20		**345**		340
Share premium account	21		**648**		592
Revaluation reserve	22		**970**		281
Other reserves	22		**3,931**		3,931
Profit and loss account	22		**5,739**		5,749
Equity Shareholders' Funds			**11,633**		10,893

The accounts on pages 27 to 47 were approved by the Board of Directors on 14th September 2000 and are signed on their behalf by:

I. Q. Jones, Chairman and Chief Executive

Group Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 30TH JUNE 2000

	Notes	2000 £'000	1999 £'000
Profit attributable to members of Parent Company		**972**	1,553
Revaluation of property		**185**	–
Unrealised revaluation gains during the year		**137**	753
Taxation credited/(charged) directly to reserves		**62**	(198)
Total Recognised Gains relating to the year		**1,356**	2,108
Return per Share	24	**39·6p**	59·3p

Note of Historical Cost Profits and Losses

FOR THE YEAR ENDED 30TH JUNE 2000

	2000 £'000	1999 restated £'000
Reported profit on ordinary activities before taxation	**919**	1,744
Realisation of revaluation gains of previous years	**77**	102
Historical cost profit on ordinary activities before taxation	**996**	1,846
Historical cost profit for the year retained after taxation and dividends	**617**	998

Statement of Group Cash Flows

For the year ended 30th June 2000

	Notes	2000 £'000	1999 £'000
Net Cash (Outflow)/Inflow from Operating Activities	5(a)	**(1,040)**	779
Returns on Investments and Servicing of Finance			
Interest received		**73**	171
Interest paid		**(42)**	(50)
Dividends received		**525**	228
Loan stock interest received		**186**	75
Net Cash Inflow from Returns on Investments and Servicing of Finance		**742**	424
Taxation		**(114)**	(339)
Capital Expenditure and Financial Investment			
Purchases of fixed asset investments		**(2,480)**	(9,008)
Sales of fixed asset investments		**4,070**	5,582
Purchases of tangible fixed assets		**(10)**	(85)
Sales of tangible fixed assets		**–**	18
Net Cash Inflow/(Outflow) from Capital Expenditure and Financial Investment		**1,580**	(3,493)
Equity Dividends Paid		**(473)**	(489)
Cash Inflow/(Outflow) before use of Liquid Resources and Financing		**695**	(3,118)
Management of Liquid Resources	5(b)	**(665)**	4,037
Financing			
Decrease in Debt	5(c)	**(42)**	(42)
Issue of ordinary shares		**61**	–
Ordinary shares bought in		**–**	(1,302)
Cash Inflow/(Outflow) from Financing		**19**	(1,344)
Increase/(Decrease) in Cash	5(c)	**49**	(425)

Notes on the Accounts

1. Accounting Policies

Basis of Preparation

The Accounts are prepared under the historical cost convention modified to include the revaluation of property, fixed asset investments and financial instruments held for trading in accordance with applicable accounting standards. In accordance with FRS 16, dividend income is now shown exclusive of any tax related credit with a consequential reduction in the amount of the tax charge. The effect of this change in accounting policy on the results for the year ended 30th June 2000 has been to decrease dividend income and the tax change by equal amounts of £60,000 (1999 – £32,000).

The true and fair override provisions of the Companies Act 1985 have been invoked; see "Financial Instruments held for trading" below.

Basis of Consolidation

The Group Accounts consolidate the accounts of Quayle Munro Holdings PLC and all its subsidiary undertakings for the year ended 30th June 2000. No Profit and Loss Account is presented for Quayle Munro Holdings PLC as permitted by Section 230 of the Companies Act 1985.

Undertakings, other than subsidiary undertakings, in which the Group has an investment representing not less than 20% of the equity, are not regarded as associated undertakings where these investments represent part of the investment portfolio of the Group.

Revenue Recognition

Fees are credited to the Profit and Loss Account when they are earned and the fee has been agreed. Income from investments includes income tax deducted at source from loan stock income. Income from investments is treated on an ex-dividend basis, with the exception of dividends from unlisted equities which are treated on a cash basis. Interest income, including loan stock interest, is treated on an accruals basis.

Investments

Listed investments are valued at the middle-market price on the balance sheet date. Unlisted investments are shown at Directors' valuation on the bases shown on page 40. Gains and losses on revaluations are taken to the Revaluation Reserve. Subsidiary undertakings are shown at the lower of cost and fair value of net assets at acquisition subject to any provision for impairment. The profits or losses on realisations equate to the excesses or shortfalls of the sale proceeds over the book values of those investments shown in the Balance Sheet at the commencement of the financial year. Such profits and losses from the realisation of investments are taken through the Profit and Loss Account. The unrealised revaluation gains and losses on these investments at the commencement of the financial year are transferred from the Revaluation Reserve to retained profits.

Financial Instruments held for trading

The fair value of all instruments held for trading is recognised in the balance sheet, and all unrealised profits and losses are taken to operating profit.

Financial instruments held for trading are held as current assets and are stated at market value at the balance sheet date, and the difference between cost and market value is taken to the profit and loss account. This treatment is a departure from UK accounting rules which stipulate that unrealised profits be credited to a revaluation reserve. In the opinion of the Board, the treatment adopted is necessary to present a true and fair view. All such

1. **ACCOUNTING POLICIES** – continued

financial instruments are readily marketable. The accounting treatment adopted represents a fairer reflection of the operating profit.

Taxation

Corporation tax payable is provided on the taxable profits at the current rate. Advance corporation tax payable on dividends paid or provided is written off except when recoverability against corporation tax payable is considered to be reasonably assured. Taxation on capital gains arising on the realisation of fixed asset investments, after utilisation of advance corporation tax previously written off, is charged or credited to the Profit and Loss Account and to retained profits in the same proportion as the accounting gains.

Deferred Taxation

Deferred Taxation is provided on the liability method on all material timing differences to the extent that they are expected to reverse in the future, calculated at the rate at which tax will be payable.

Depreciation

The cost or valuation of tangible fixed assets is depreciated by equal instalments over their expected useful lives as follows:

Property	50 years
Office equipment	3 to 4 years
Vehicles	4 years
Furniture and fittings	5 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment in periods when events or changes in circumstances indicate the carrying value may not be recoverable.

Work in Progress

Work in progress is stated at the lower of cost and net realisable value.

Leasing Commitments

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Pensions

The Group operates a defined benefit pension scheme. The defined benefit pension scheme requires contributions to be made to a separately administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. The contributions for final salary benefits are determined by a qualified actuary on the basis of triennial valuations using the attained age method.

Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. Goodwill arising on acquisitions prior to 30th June 1999 was set off directly to reserves. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10. If a subsidiary undertaking, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

2. Turnover

Turnover represents the amounts derived from the Group's ordinary activities, stated net of value added tax.

	2000 £'000	1999 £'000
Corporate finance fee income	**427**	1,801
Other fee income	**238**	265
Rental income	**–**	23
	665	2,089

Turnover was derived in the United Kingdom. £nil income was derived from overseas (1999 – £218,000).

3. Other Operating Charges

Other operating charges include:

		2000 £'000	1999 £'000
Staff costs (note 7)		**830**	1,185
Depreciation		**31**	29
Operating lease rentals	– office equipment	**6**	5
Auditors' remuneration	– audit fees	**30**	25
	– non audit fees	**21**	25

4. Income from Investments

	2000 £'000	1999 £'000
Dividends	**501**	256
Loan stock interest	**348**	165
	849	421
Income from participating interests, included above	**325**	26

5. Cash Flows

5(a). Reconciliation of Operating (Loss)/Profit before Taxation to Net Cash (Outflow)/Inflow from Operating Activities

	2000	1999
	£'000	£'000
Operating (loss)/profit	**(522)**	225
Depreciation	**31**	29
(Profit) on sales of tangible fixed assets	**–**	(6)
(Increase) in debtors	**(41)**	(62)
Decrease/(increase) in financial instruments held for trading	**64**	(121)
(Increase)/decrease in work in progress	**(174)**	426
(Decrease)/increase in creditors	**(398)**	288
Net cash (outflow)/inflow from operating activities	**(1,040)**	779

5(b). Reconciliation of Net Cash Flow to Movement in Net Funds

	2000	1999
	£'000	£'000
Increase/(decrease) in cash in the year	**49**	(425)
Cash outflow from repayment of debt	**42**	42
Cash used to increase/(decrease) liquid resources	**665**	(4,037)
Movement in net funds in the year	**756**	(4,420)
Net funds at 30th June 1999	**462**	4,882
Net funds at 30th June 2000	**1,218**	462

5(c). Analysis of Net Funds

	As at 30th June 1999	Cashflow	Non-cash movements	**As at 30th June 2000**
	£'000	£'000	£'000	**£'000**
Cash on hand	830	49	–	**879**
Deposits repayable after 24 hours	270	665	–	**935**
Debt due within one year	(43)	42	(42)	**(43)**
Debt due after one year	(595)	–	42	**(553)**
Total	462	756	–	**1,218**

6. Directors' Remuneration

The following table shows a breakdown of the remuneration of the individual Directors for the time during which they were Directors of the Company:

	Fees/Basic salaries **2000** £'000	Performance related bonuses **2000** £'000	Taxable benefits **2000** £'000	Total **2000** £'000
I. Q. Jones	**159**	**36**	**17**	**212**
J. C. Elliot	**113**	**23**	**1**	**137**
R. W. L. Legget	**46**	**–**	**5**	**51**
A. A. T. Ostrowski	**67**	**14**	**2**	**83**
A. C. Ritchie	**48**	**11**	**1**	**60**
D. A. Ross Stewart	**5**	**–**	**–**	**5**
D. G. Sutherland	**9**	**–**	**–**	**9**

	Fees/Basic salaries 1999 £'000	Performance related bonuses 1999 £'000	Taxable benefits 1999 £'000	Total 1999 £'000
I. Q. Jones	150	149	15	314
J. C. Elliot	106	112	1	219
R. W. L. Legget	71	55	7	133
A. A. T. Ostrowski	66	45	2	113
B. A. Dawson	2	–	–	2
D. A. Ross Stewart	5	–	–	5
D. G. Sutherland	9	–	–	9

(a) The Non-Executive Directors do not participate in the Group bonus scheme, and no pension contributions are made on their behalf by the Company.

(b) Taxable benefits include such items as company cars and private health insurance.

(c) The performance related bonuses are calculated based on a fixed formula, which has been determined by the Remuneration Committee, measuring the performance of the Group annually against specified financial targets relating to profit before tax.

The pension entitlements of the Directors are as follows:

	Increase, excluding inflation, in accrued pension during the year £'000	Transfer value of increase £'000	Accumulated total accrued pension at 30th June 1999 £'000	Accumulated total accrued pension at 30th June 2000 £'000
I. Q. Jones	19	280	69	**88**
J. C. Elliot	4	45	20	**24**
A. A. T. Ostrowski	2	26	8	**10**
A. C. Ritchie	1	5	2	**3**
R. W. L. Legget	1*	12	13	**14***

*until date of resignation

Details of interests in share options, for each director, are set out on page 17.

7. Staff Costs

	2000 £'000	1999 £'000
Wages and salaries	**654**	1,008
Social security costs	**73**	113
Other pension costs	**103**	64
	830	1,185

The average number of employees during the year was 9 (1999 – 10).

8. Taxation

	2000 £'000	1999 £'000
Group Profit and Loss Account		
Corporation tax at 30% (1999 – 30·75%)	**29**	(183)
Deferred tax	**–**	(2)
	29	(185)
Less: Over/(under) provision in prior years	**24**	(6)
	53	(191)

The tax effect in the profit and loss account relating to the profit on sales of fixed asset investments recognised beneath operating (loss)/profit is a charge of £8,000 (1999 – £26,000). The tax credit for the year has benefited to the extent of £98,000 (1999 – £240,000) from the utilisation of capital losses brought forward against profits realised on the sales of fixed asset investments. If fixed asset investments were sold at their revalued amounts, a tax liability of £896,000 (1999 – £618,000) would arise. A subsidiary undertaking has £1,523,000 of capital losses available for carry forward at 30th June 2000 (1999 – £1,849,000).

Balance Sheet

	2000 £'000	1999 £'000
Group		
Tax recoverable	**57**	1
Advance corporation tax recoverable	**34**	–
	91	1
Corporation tax	**–**	(139)
Advance corporation tax payable	**–**	–
	–	(139)
Company		
Tax recoverable	**32**	–
Advance corporation tax recoverable	**34**	–
	66	–
Corporation tax	**–**	(120)
Advance corporation tax payable	**–**	–
	–	(120)

9. Dividends

	2000 £'000	1999 £'000
Additional final dividend for 1999	**4**	–
Interim dividend of 4·75p (1999 – 4·5p)	**163**	153
Final dividend of 9·5p (1999 – 9p)	**327**	306
	494	459

10. Profit Attributable to Members of the Parent Undertaking

The profit dealt with in the accounts of the parent company was £421,000 (1999 – £502,000).

11. Earnings per Share

	2000	1999
Basic earnings per share	**28·4p**	43·7p
Diluted earnings per share	**28·2p**	42·8p

The calculation of basic earnings per share is based on earnings of £972,000 (1999 – £1,553,000) and on 3,428,734 ordinary shares, being the weighted average number of shares in issue during the year (1999 – 3,556,135).

The calculation of diluted earnings per share is based on the weighted average of 3,453,138 ordinary shares (1999 – 3,633,069), calculated as follows:

	2000	1999
Basic weighted average number of shares	**3,428,734**	3,556,135
Dilutive potential ordinary shares:		
Employee share options	**24,404**	76,934
	3,453,138	3,633,069

12. Tangible Fixed Assets

	Property £'000	Furniture and fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Group				
Cost or valuation				
At 30th June 1999	1,080	308	52	1,440
Additions	–	10	–	10
Revaluation	185	–	–	185
At 30th June 2000	**1,265**	**318**	**52**	**1,635**
Depreciation				
At 30th June 1999	–	139	12	151
Charge for the period	–	18	13	31
At 30th June 2000	**–**	**157**	**25**	**182**
Net book value				
At 30th June 2000	**1,265**	**161**	**27**	**1,453**
At 30th June 1999	1,080	169	40	1,289

The property was externally revalued on the basis of existing use as at 30th June 2000 by CB Hillier Parker Limited, who are qualified in accordance with the RICS Appraisal and Valuation Manual.

13. INVESTMENTS

	2000 £'000	1999 £'000
Group		
Valuation		
At 30th June 1999	**11,426**	6,590
Additions	**2,480**	9,008
Disposals	**(3,433)**	(4,925)
Revaluation in year	**137**	753
At 30th June 2000	**10,610**	11,426
Of which:		
Listed investments	**4,146**	5,615
Shares in participating interests	**1,447**	1,430
Loans to participating interests	**560**	560
Other shares	**1,243**	571
Other loans	**3,214**	3,250
	10,610	11,426
Historical cost of investments	**8,974**	9,850

Valuation of Participating Interests

	Investments in securities £'000	Investments in loans £'000
At 30th June 1999	**1,430**	**560**
Revaluation in year	**17**	**–**
At 30th June 2000	**1,447**	**560**

13. INVESTMENTS – continued

	2000 £'000	1999 £'000
Company		
Cost or Valuation		
At 30th June 1999	**9,187**	6,912
Additions	**–**	2,289
Disposals	**(36)**	(866)
Written off in year	**–**	(1)
Revaluation in year	**688**	853
At 30th June 2000	**9,839**	9,187
Of which:		
Shares in participating interests	**1,447**	1,430
Loans to participating interests	**560**	560
Other shares	**1,245**	574
Other loans	**3,214**	3,250
Subsidiary undertakings	**3,373**	3,373
	9,839	9,187
Historical cost of investments	**8,869**	8,906

Valuation of Participating Interests

	Investments in securities £'000	Investments in loans £'000
At 30th June 1999	**1,430**	**560**
Revaluation in year	**17**	**–**
At 30th June 2000	**1,447**	**560**

Subsidiary Undertakings

	2000 £'000	1999 £'000
At 30th June 1999	**3,373**	3,374
Written off in year	**–**	(1)
At 30th June 2000	**3,373**	3,373

In the opinion of the Directors the valuation above is fair and reasonable having regard to all the information available. The Directors have given due consideration to the factors which they consider appropriate for unlisted investments in each case including:

(a) historic growth rate and potential for future growth in earnings;

(b) the conditions and risks involved in the sector of the industry in which each company operates; and

(c) all financial and management information available to them.

13. INVESTMENTS – continued

The holdings of share capital, the percentage of each class of share held, the distributable profit and the reserves of companies in which more than 20% of the nominal value of any class of allotted share capital is held were, at the end of their latest financial years for which accounts are available, as follows:

Company	Class of capital	Percentage of Class Held	Share capital and reserves £'000	Profit for the period £'000
Morris Group Limited (accounts to 31.3.00)	'A' Ordinary Shares of £1 each	23·4	2,994	1,635
KE Project Limited (James Watt College) (no accounts – newly formed company)	Ordinary Shares of 1p each	40·0	–	–
LH Project Limited (Larkfield Hospital) (accounts to 31.3.00)	Ordinary Shares of 1p each	40·0	83	5
Submersible Television Surveys Limited (accounts to 31.12.99)	'A' Ordinary Shares of £1 each	46·5	1,952	637
	Cumulative Redeemable Preference Shares of £1 each	24·1		
	'B' Cumulative Redeemable Preference Shares of £1 each	44·3		

Subsidiary undertakings

Company	Country of Registration	Holding	Proportion held	Nature of Business
Quayle Munro Limited	Scotland	Ordinary Shares	100%	Merchant Banking
Parrish PLC	England	Ordinary Shares	100%	Holding Company
East of Scotland Investments Limited	Scotland	Ordinary Shares	100%	Investment Company

14. Financial Assets and Liabilities

The Company's financial instruments, other than derivatives, comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income.

Listed fixed asset investments in the United Kingdom are valued at middle market prices which equate to their fair values. The fair value of unlisted fixed asset investments is determined by the Board and is used to determine balance sheet carrying value.

The fair value of financial instruments held for trading is represented by their carrying values in the balance sheet being their market value. All trading in financial instruments comprises dealing in forward contracts involving foreign currencies.

Short term deposits and cash balances are held in floating rate accounts.

Details of the bank loan are set out in note 17.

The risks attached to the financial assets and liabilities, excluding short term debtors and creditors, and the policies regarding management of these risks is discussed in the Report of the Directors on page 18.

The interest rate profile of financial assets may be summarised as follows:

			Weighted average interest rate		Weighted average period until maturity	
	2000 £'000	1999 £'000	**2000 %**	1999 %	**2000 years**	1999 years
Non-interest bearing	**5,341**	6,123	**–**	–	**–**	–
Floating rate (LIBOR related)	**2,305**	1,625	**–**	–	**–**	–
Fixed rate – preference shares	**1,495**	1,495	**9·2**	9·2	**0·6**	0·7
– other	**3,283**	3,283	**9·5**	9·5	**11·7**	13·3
	12,424	12,526				

15. Debtors

	2000 £'000	1999 £'000
Group		
Trade debtors	**211**	145
Proceeds due from sales of investments	**275**	351
Other debtors	**4**	2
Prepayments and accrued income	**316**	205
	806	703
Company		
Prepayments and accrued income	**263**	100
	263	100
Group and Company		
Amounts falling due after more than one year included in prepayments and accrued income	**207**	49

16. Cash and Deposits

	2000 £'000	1999 £'000
Group		
Balances repayable within 24 hours	**879**	830
Deposits repayable after more than 24 hours	**935**	270
	1,814	1,100

17. Bank Loan

	2000 £'000	1999 £'000
Group		
Amounts repayable in instalments:		
After five years	**384**	426
Between two and five years	**127**	127
Between one and two years	**42**	42
	553	595
Within one year	**43**	43
	596	638

The bank loan is secured by a fixed charge in favour of the Bank of Scotland on the property. It is repayable in equal annual instalments, the last of which is due in 2014. Interest is payable at 1·25% over the Bank of Scotland's base rate.

18. Creditors

	2000 £'000	1999 £'000
Group		
Trade creditors	**16**	57
Other creditors	**34**	71
Accruals	**154**	396
Other taxes and social security costs	**18**	96
	222	620
Company		
Trade creditors	**12**	24
Accruals	**28**	1
	40	25

19. Provisions for Liabilities and Charges

	£'000
Group	
Deferred taxation	
At 30th June 1999	2
Arising during the year	–
At 30th June 2000	**2**

Deferred taxation provided in the accounts and the amounts not provided are as follows:

Group

	Provided		Not provided	
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000
Capital allowances in advance of depreciation	**2**	2	**–**	–

20. Share Capital

	2000 Number	1999 Number	**2000 £'000**	1999 £'000
Authorised				
Ordinary shares of 10p each	**5,000,000**	5,000,000	**500**	500
Allotted, called up and fully paid				
Ordinary shares of 10p each	**3,447,084**	3,400,327	**345**	340

On 9th June 1993 the Directors granted options to subscribe for 198,000 ordinary shares; these options are exercisable between 9th June 1996 and 8th June 2003 at a price of 118p per ordinary share. On 9th December 1996 33,000 ordinary shares were allotted pursuant to an exercise of those options. A premium of £36,000 arose on the issue of these shares. On 18th September 1997 33,000 ordinary shares were allotted pursuant to an exercise of those options. A premium of £36,000 arose on the issue of these shares. On 27th November 1998 options over 66,000 ordinary shares were waived. On 23rd September 1999 33,000 ordinary shares were allotted pursuant to an exercise of those options. A premium of £36,000 arose on the issue of these shares. The number of shares over which options remained in force at the end of the year was 33,000.

On 21st March 1995 the Directors granted options to subscribe for 100,000 ordinary shares of which 13,757 have since lapsed and a further 13,757 were waived on 27th November 1998. On 12th May 1998 22,012 ordinary shares were allotted pursuant to an exercise of those options. A premium of £32,000 arose on the issue of these shares. On 23rd September 1999 3,757 ordinary shares and on 27th June 2000 10,000 ordinary shares were allotted pursuant to exercises of those options. A premium of £20,000 arose on the issue of these shares. Of the number of shares over which options remained in force at the end of the year, 23,387 options are exercisable between 21st March 1998 and 20th March 2002 at 158p per ordinary share, and 13,330 options are exercisable between 21st March 1998 and 20th March 2005 at 158p per ordinary share.

On 21st October 1997 the Directors granted options to subscribe for 100,000 ordinary shares of which 17,191 have lapsed; 69,158 options are exercisable between 21st October 2000 and 20th October 2004 at 261p per ordinary share and 13,651 options are exercisable between 21st October 2000 and 20th October 2007 at 261p per ordinary share.

On 18th December 1998 the Directors granted options to subscribe for 79,757 ordinary shares: these options are exercisable between 18th December 2001 and 17th December 2005 at a price of 245p per ordinary share.

20. Share Capital – continued

On 23rd September 1999 the Directors granted options to subscribe for 75,000 ordinary shares of which 15,343 have lapsed. 49,880 options are exercisable between 23rd September 2002 and 22nd September 2006 at 280p per ordinary share and 9,777 options are exercisable between 23rd September 2002 and 22nd September 2009.

21. Share Premium

	£'000
Group and Company	
At 30th June 1999	592
Arising on share issues	56
At 30th June 2000	**648**

22. Reserves and Profit and Loss Account

	Revaluation Reserve	Capital Redemption Reserve	Merger Reserve	**Other Reserves Total**	**Profit and Loss Account**
	£'000	£'000	£'000	**£'000**	**£'000**
Group					
At 30th June 1999	**1,576**	127	1,229	**1,356**	**9,056**
Revaluation of property	**185**	–	–	**–**	**–**
Appreciation in investments	**137**	–	–	**–**	**–**
Transfer to profit and loss account	**(77)**	–	–	**–**	**77**
Taxation	**–**	–	–	**–**	**62**
Retained profit for year	**–**	–	–	**–**	**478**
At 30th June 2000	**1,821**	127	1,229	**1,356**	**9,673**

The cumulative amount of goodwill written off at 30th June 2000 was £2,575,000 (1999 – £2,575,000).

Company					
At 30th June 1999	**281**	127	3,804	**3,931**	**5,749**
Appreciation in investments	**688**	–	–	**–**	**–**
Transfer from profit and loss account	**1**	–	–	**–**	**(1)**
Taxation	**–**	–	–	**–**	**62**
Retained loss for year	**–**	–	–	**–**	**(71)**
At 30th June 2000	**970**	127	3,804	**3,931**	**5,739**

23. Reconciliation of movement in shareholders' funds

	2000	1999
	£'000	£'000
Total recognised gains and losses	**1,356**	2,108
Dividends	**(494)**	(459)
Net addition to shareholders' funds	**862**	1,649
Opening shareholders' funds	**12,920**	12,573
Ordinary shares bought in	**–**	(1,302)
Options exercised over ordinary shares	**61**	–
Closing shareholders' funds	**13,843**	12,920

Shareholders' funds consist of equity interests only.

24. Return per Share

The calculation of return per share is based on total recognised gains of £1,356,000 (1999 – £2,108,000) and on 3,428,734 ordinary shares, being the weighted average number of shares in issue during the year (1999 – 3,556,135). Return per share when diluted for options granted is 39·3p (1999 – 58·0p), and the calculation is based on the weighted average of 3,453,138 ordinary shares (1999 – 3,633,069).

25. Contingent liabilities

The Company has guaranteed £250,000 (1999 – £250,000) in respect of a subsidiary company. In addition, the Company has provided hire purchase agreement guarantees, which at the year end amounted to £19,000 (1999 – £76,000), on behalf of an investee company.

26. Operating lease commitments

The annual commitments under non-cancellable operating leases of office equipment were as follows:

	2000 **£'000**	1999 £'000
Operating leases which expire within one year	**–**	–
Operating leases which expire within two to five years	**6**	5
	6	5

27. Pension commitments

The Group operates a defined benefit pension scheme which is funded by the payment of contributions to a separately administered trust fund.

The contributions to the scheme are determined by a qualified actuary on the basis of triennial valuation using the attained age method. The most recent valuation was as at 1st July 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the return on investments and the rate of increase in salaries and pensions:

Rate of return on investments	9% per annum
Rate of salary increases	7·5% per annum
Pension increases	4·5% for certain members. For other members, 4·5% for pensions accrued after 5th April 1997.

The pension charge for the year was £103,000 (1999 – £74,000). The most recent actuarial valuation showed the market value of the defined benefit pension scheme's assets in respect of active and deferred members was £2,414,000 and that the actuarial value of those assets held for the final salary benefits represented 139% of the benefits that had accrued to members after allowing for expected future increases in earnings. The contributions of the company are 16·6% of pensionable salaries. The contributory employees' contribution rate is 3% p.a. of pensionable salaries.

28. NET ASSET VALUE PER SHARE

The net asset value per share was 401·6p (1999 – 380·0p) based on net assets of £13,843,000 (1999 – £12,920,000) and on 3,447,084 (1999 – 3,400,327) ordinary shares in issue at 30th June 2000.

The fully diluted net asset value per share was 388·3p (1999 – 366.1p). This is calculated on the assumption that all options granted were fully exercised at the year end resulting in a larger number of ordinary shares totalling 3,739,024 (1999 – 3,696,558) and increased net assets of £14,519,000 (1999 – £13,534,000).

The diluted net asset value per share calculated in accordance with FRS 14 is 398·8p (1999 – 371.6p). This is based on net assets and on 3,471,488 (1999 – 3,477,260) ordinary shares, being the number of ordinary shares in issue at 30th June 2000 plus 24,404 (1999 – 76,934) ordinary shares, being the notional number of shares that would have been issued for no consideration using a year end share price of 252·5p (1999 – 260p) to represent the fair value of an ordinary share.

Notice of Annual General Meeting

Notice is hereby given that the Twentieth Annual General Meeting of the Company will be held at 8 Charlotte Square, Edinburgh on 3rd November 2000 at 12.00 noon for the purpose of transacting the following business:

Ordinary Business

1. To receive the Reports of the Directors and Auditors and to adopt the Accounts for the year ended 30th June 2000.

2. To declare a final dividend.

3. To re-elect Mr D. G. Sutherland as a Director.

4. To re-elect Mr J. C. Elliot as a Director.

5. To re-appoint Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business

6. To consider and, if thought fit, pass the following resolution as a Special Resolution

   That, pursuant to Section 95 of the Companies Act 1985 ("the Act"), the Directors be and are hereby empowered to allot and to make offers or agreements to allot equity securities (as defined in Section 94 of the Act), as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

   (a) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them provided that the Directors may make such arrangements in respect of overseas holders of shares and in respect of fractional entitlements as they consider necessary or convenient:

   and/or

   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £17,235, or, if less, 5% of the issued ordinary share capital from time to time;

   and shall expire on the conclusion of the next Annual General Meeting of the Company or on 3rd February 2002, whichever is the earlier, save that the Directors may before such expiry make offers or agreements which would or might require equity securities to be allotted in pursuance of such offers or agreements as if the powers conferred hereby had not expired.

Proxies

Only shareholders are entitled to attend or vote at the Meeting. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company. A duly completed proxy card appointing a proxy must be delivered at the office of the Company's Registrars not later than 48 hours before the time appointed for holding the Meeting. Return of a completed Form of Proxy will not preclude a member from attending and voting personally at the Meeting.

Register of Directors' Interests in Shares

The Register of Directors' Interests in Shares of the Company will be available for inspection at the Annual General Meeting.

Registered Office
8 Charlotte Square
Edinburgh
EH2 4DR
4th October 2000

By order of the Board
A. A. T. Ostrowski, Secretary

FORM OF PROXY FOR THE ANNUAL GENERAL MEETING
CONVENED FOR 3rd NOVEMBER 2000

Form of Proxy

I/We (see Note 3) .... BLOCK CAPITALS PLEASE

of ....

being a Member of Quayle Munro Holdings PLC hereby appoint the Chairman of the Meeting or

.... (see Note 4)

as my/our proxy to attend and, on a poll, vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 3rd November 2000 and at any adjournment thereof.

I/We direct my/our proxy to vote, on a poll, on the Resolutions set out in the notice convening the Annual General Meeting as follows:

Ordinary Business	FOR	AGAINST
1. The adoption of the Directors' Report and Accounts for the year ended 30th June 2000		
2. The declaration of the dividend recommended by the Directors		
3. The re-election as a Director of Mr D. G. Sutherland		
4. The re-election as a Director of Mr J. C. Elliot		
5. The re-appointment of the Auditors and the authorisation of the Directors to fix their remuneration		
Special Business		
6. Authorisation of the Directors to allot shares pursuant to Section 95 of the Companies Act 1985		

Dated this .... day of.. 2000

Signature (see Notes 1, 2 & 3) ....

Notes

1. To be effective this proxy card must be lodged with the Company's Registrars, Capita IRG plc, Registration Department, Balfour House, 390/398 High Road, Ilford IG1 1NQ, duly completed and signed, not less than forty-eight hours prior to the Meeting.
2. If this proxy is granted by a Corporation it must be executed under its common seal, or under the hand of some officer duly authorised in writing in that behalf.
3. In the case of joint holders, the vote of the senior who tenders a vote will be accepted.
4. A shareholder may appoint a proxy of his own choice by deleting the reference to the Chairman and inserting the name of his proxy in the space provided. A proxy need not be a Member of the Company but must attend the Meeting in person to represent the Member.
5. If this proxy is returned without any indication as to how the person appointed proxy shall vote, he may exercise his discretion as to how he votes or whether he abstains from voting.
6. Return of a completed proxy card will not preclude a Member from attending and voting personally at the Meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. ANG1468

1

CAPITA IRG plc
REGISTRATION DEPARTMENT
BALFOUR HOUSE
390/398 HIGH ROAD
ILFORD
IG1 1BR

FIRST FOLD

THIRD FOLD

Tuck inside facing flap

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