QUAYLE MUNRO HOLDINGS PLC REPORT AND ACCOUNTS 2001

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QUAYLE MUNRO HOLDINGS PLC

REPORT AND ACCOUNTS 2001

QUAYLE MUNRO HOLDINGS PLC

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QUAYLE MUNRO

HOLDINGS PLC

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
M. D. WATT
J. D. BEST
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
ING BARINGS
60 LONDON WALL
LONDON EC2M 5TQ

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.

Jo C. Elliot

(Executive) was appointed a Director in 1996. He is Managing Director of Quayle Munro Limited having been an Executive Director since 1988. He is a Director of Edinburgh High Income Trust plc, J W Galloway Limited and of four PFI project companies. He is also a Governor of Edinburgh College of Art.

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.

Moray D. Watt

(Executive) qualified as a Chartered Accountant with Ernst & Young and joined Quayle Munro Limited as an Assistant Director in 1999. He was appointed an Executive Director in February 2001.

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 he was formerly a director of Standard Life Assurance Company, Cala 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 a director of Lothian Investment Fund for Enterprise Limited and was formerly Chairman of Edinburgh Income Trust plc.

James D. Best

(Non-Executive) was appointed an Executive Director in October 2000. In August 2001 he became Non-Executive. He has been a Director of HSBC Investment Bank plc and HSBC (Asia) in Hong Kong and, also, a Managing Director of UBS Limited. He recently worked with Merrill Lynch Private Banking in Scotland.

Jutta Swaeb

(Corporate Finance Executive) joined Quayle Munro Limited in November 2000.

Stephen C. Bell

(Assistant Director) joined Quayle Munro Limited in May 2001.

Andrew D. Bruce

(Assistant Director) joined Quayle Munro Limited in August 2001.

BOARD AUDIT COMMITTEE

D. G. Sutherland (Chairman)

D. A. Ross Stewart

BOARD REMUNERATION COMMITTEE

D. G. Sutherland (Chairman)

D. A. Ross Stewart

LEFT TO RIGHT

A A T OSTROWSKI (Executive)
S C BELL (Assistant Director)
D G SUTHERLAND (Non-Executive)
A C RITCHIE (Executive)
I Q JONES (Chairman and Chief Executive)
J SWAEB (Corporate Finance Executive)
J C ELLIOT (Executive)
A D BRUCE (Assistant Director)
D A ROSS STEWART (Non-Executive)
M D WATT (Executive)

Quayle Munro Holdings plc ("QMH") seeks, in Managing its Portfolio for Growth,

- **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's completed remits include 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; the £1·5 billion privatisation of ScotRail and other major public sector responsibilities; and six signed PFI projects.

- **attention from senior people**

All QM's Directors and Assistant Directors 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 successful year in which we generated increased revenues and have showed further growth in net assets. We have continued to lay the foundations for progress in the future.

Results

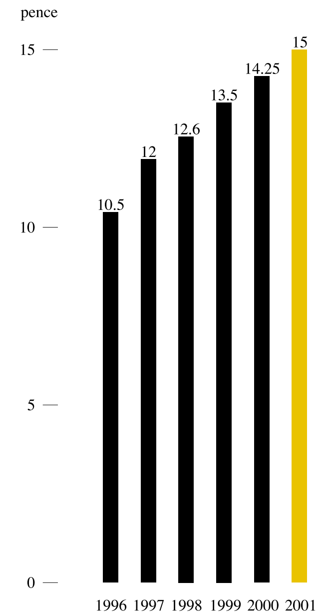
The Group profit before taxation was £1,034,000 and this compares with £919,000 for the previous year, a rise of 12·5 per cent. Profit before taxation was affected by an additional payment of £165,000 to the pension fund. This followed a reappraisal of the funding position one year ahead of the triennial review which we decided was justified by a number of contemporary factors.

In the absence of this exceptional item, profit before taxation would have been £1,199,000 a rise of 30 per cent from the previous year. Corporate finance and related fee income totalled £1,402,000, an increase of 111 per cent over the previous year, whilst there was a very satisfactory level of profits from the sale of fixed asset investments. The increase in costs was due mainly to the special pension fund payment to make up an emerging deficit, but there were also increased costs which arose as we sought to broaden the base of the professional business.

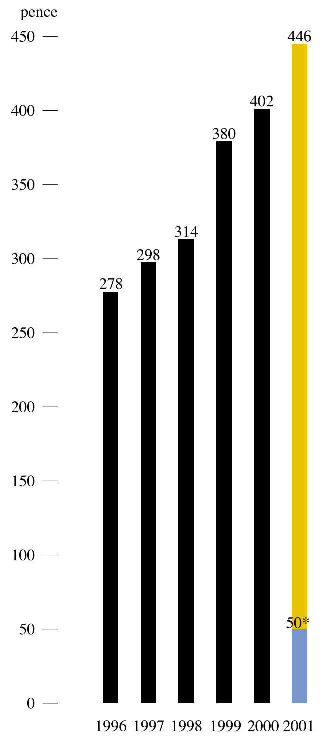
Earnings per share were 27·6p compared with 28·4p last year, a fall of 3 per cent caused entirely by an increased tax charge. The total return per share, which comprises earnings per share plus the increase in the value of the Group's investment portfolio, including taxation on gains from sales of investments charged directly to reserves, was 63·6p compared with 39·6p the previous year, a rise of 61 per cent.

During the year, and notwithstanding the payment in January of the special dividend of 50p per share, net assets per share fell only slightly to 396p compared with 402p as at 30th June 2000, a fall of just 1·5 per cent due entirely to an increase in the number of shares in issue following some share option exercises during the year. During the year our net asset value has therefore increased by 44·6p per share, or 11 per cent, if the special dividend of £1,747,000 is added back but after payment or provision for our revenue dividends.

In view of the continuing growth in net worth and a satisfactory current level of activity the Directors are pleased to recommend a final dividend of 10p net, making 15p net for the year as a whole compared with 14·25p for the previous year, a rise of 5·3 per cent.



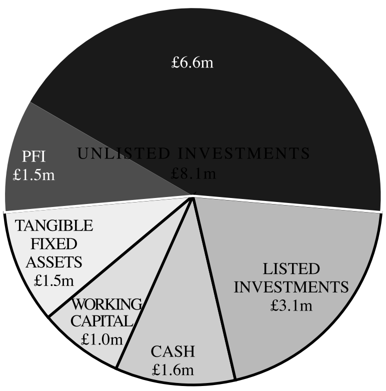
Dividend Per Share
Increase of 43% over 5 years



Net Assets Per Share
Increase of 60% over 5 years
(including special dividends)
* - Special dividend

£2.7 million

GROSS ASSETS



£15.3 million

We have continued to maintain a portfolio of listed investments and have throughout concentrated on "value" investment philosophies. In so doing we have managed to outperform the market in each of the last two years although our recent performance has been somewhat affected by falling markets since the year end. As I have indicated in the past we regard this portfolio as our cash reserve, and we will consider its distribution to shareholders on a continuing basis. In view of recent changes in taxation we may contemplate the making of scrip dividends by the distribution of our individual unlisted investments.

We continue to be frustrated by the failure of the Company's share price to recognise continuing good results over many years. As I have indicated we will continue to contemplate the return of excess net assets to shareholders but for the time being and against the background of the undoubted growth of Morris and of a number of new initiatives, both by ourselves and by our investee companies, we have decided to forego the payment of any special dividends at this time. Shareholders can however be confident that we will address the disparity between our market price and our net asset value, if appropriate by further special dividends.

Prospects

The new financial year has started well with a satisfactory flow of work in corporate finance. Net assets have slipped back slightly as a result of falling stock markets, but our liquidity will enable judicious purchasing of good quality leading shares. The unlisted portfolio continues to make good progress.

The Executive

During the year Jim Best, formerly with Merrill Lynch Scotland, joined us as a Director, initially on an executive basis but since 6 August 2001 on a non-executive basis. I would like to thank Jim for his work during the year. Moray Watt also joined the Board as an Executive Director, and I welcome Moray and wish him well in the future.

As always I would like to thank my colleagues for their hard work during the year. This has been a successful year both in terms of revenue creation and capital growth in what were by no means easy markets, and the confidence we can feel for the future is a tribute to the team and the way we run our shareholders' affairs.

I. Q. Jones
Chairman and Chief Executive
19th September 2001

Quayle Munro's largest single investment is in Morris Group Limited, based in the North West of England and one of the UK's largest privately owned housebuilders. It recently expanded significantly with the acquisition of the housebuilding division of Allen plc. Shown here is Alderley Edge at Cronton Grange, Whitefield Lane, Tarbock, Merseyside.

Another of Quayle Munro's unlisted investments is Chiltern Invadex, which supplies, installs and services lifting and bathing equipment. It also develops, manufactures and markets shower trays, enclosures and cubicles. Shown here is a ceiling mounted hoist, designed for controlled transfer from bed, wheelchair or floor.

Report of the Managing Director

of Quayle Munro Limited

The Year 2000/2001 has shown Steady Progress in Quayle Munro's corporate finance advisory business.

On the private sector side, we continue to provide financial advice on a full range of capital raising and mergers and acquisitions work. Our unique selling point in the market is the ability to offer a package of advice and money for growing companies, the core element being the corporate finance advice but with the capability to invest equity in suitable cases. The ensuing relationship of adviser/minority investor, often combined with the provision of a non-executive director, is one which can be of great value both to the investee company and to Quayle Munro, and such relationships are at the heart of much of our repetitive fee earning business and of our unlisted investment portfolio.

The opportunities are with young and growing companies in both the old and the new economy; in the new economy for example we are developing interests in the bio-medical field where the expenditure on research will generate real value in terms of intellectual property. During the year we advised Tayside Flow Technologies Limited, which is developing specialised surgical implants. QMH made an equity commitment of £250,000 as part of the company's first institutional placing which was arranged by QM.

Our largest private sector transaction during the year was acting for Hero, a major European food group, in the acquisition of the Brandway Group, which is best known for its Supercook range of cookery and baking products.

In order to maintain the momentum of the private sector part of our business we have recently recruited Andrew Bruce, who has joined us as an Assistant Director from Scottish & Newcastle. With his background in internal audit, he strengthens our capacity for due diligence and investigation work, which is at the heart of our ability to provide sound advice to corporate clients and to appraise investment opportunities.

We continue to broaden the PFI side of our business. As with private sector work, our offering to the market has been based on a combination of advice and money. This was the basis on which we closed our first three PFI projects, where we were financial advisers to the consortium leaders and also minority equity investors. These were the Falkirk Schools (Class 98), the Kilwinning Campus of James Watt F E College (KE Project) and the Larkfield Unit of Inverclyde Royal Hospital (LH Project). However, as the relationships with PFI contractors have extended and developed, it became clear that we would be generating more opportunities for equity investment in PFI projects

Quayle Munro was financial adviser to Hero, the leading Swiss food group, in the acquisition of the Brandway Group, best known for its "Supercook" home baking products.

Artist's impression of Meldrum Academy, a new school being built by Robertson Group Scotland for Aberdeenshire Council as part of the Aberdeenshire Schools PFI.

than we could comfortably handle within the constraints of the QMH balance sheet.

Accordingly, we have taken a major step forward in establishing the Quayle Munro PFI Fund, a £10m fund aimed specifically at equity in PFI projects. QMH has committed £2·5m and Bank of Scotland has committed the balance of £7·5m. The Fund is structured as a limited partnership, and funds will be drawn down as required.

The first fruit of this collaboration with Bank of Scotland is the Aberdeenshire Schools PFI, which reached financial close in March 2001. The single purpose vehicle, Robertson Education (Aberdeenshire) Limited, was advised by QM, and the Fund has taken a 20 per cent equity stake alongside Bank of Scotland and Robertson Group (Scotland) Limited. QM is currently advising on three further transactions at preferred bidder stage, in two of which the Fund will take equity. It is noteworthy that these two projects are located south of the border: as our Scottish based clients have expanded into the north of England we have been glad to support them with advice and funding, allowing us to develop our field of operations in PFI outside Scotland.

Establishment of the Fund has allowed another type of broadening of our PFI business. The Fund is ready to invest in projects where QM is not the project company's financial adviser. Accordingly we are opening up dialogues with a wide range of PFI consortium leaders, who may already have financial advisory relationships in place but may nonetheless require equity for PFI projects. The Fund is targeting projects with a total capital value of £10–£100m, of which the equity element of funding at 10 per cent is typically £1–£10m. Through the Fund, QM as a pure equity provider offers finance at market rates, combined with an intimate knowledge of PFI practice which we can bring to bear during the bidding and negotiation phases and subsequently on PFI company boards.

The broadening of our PFI business is also evident in our work for the public sector. Our work for Highland Primary Care NHS Trust on the Invergordon Healthcare Project and for Midlothian Council on the Dalkeith Schools have precedents in our work over the last few years on education and health projects. At the leading edge of PFI we are advising Lothian University Hospitals NHS Trust on equipment procurement for its new facilities, including the New Royal Infirmary of Edinburgh where the first phase is due to open early in 2002. We are also advising the Scottish Tourist Board on their innovative e-business project.

After the year end, our client Shanks Waste Services reached financial close with Argyll & Bute Council for the provision of waste disposal services under a PFI contract, the first of its type in Scotland.

In order to sustain this workload we have made two additions to the team. Jutta Swaeb joined us last Autumn from KBC in London after an MSc in Finance; and Stephen Bell joined us as an Assistant Director in the Spring from First Group where he was latterly Project Director on a major public transport PFI project.

The opportunities for QM are significant as the PFI market grows and matures. On conventional projects the nature of the financial advice required will change as our clients and potential clients gain experience and as documentation becomes more standardised. There will be additional opportunities as public sector procurement methodologies change and develop, and as PFI techniques extend to a wider variety of situations. We are confident that our expanded team will maintain QM's position in this dynamic market.

J. C. Elliot
Managing Director of
Quayle Munro Limited
19th September 2001

A snowboarder on the back corrie of Aonach Mor at Nevis Range, near Fort William. The ski-ing centre was created in 1989 to provide an all-year-round tourist attraction by Nevis Range Development Company plc, in which Quayle Munro was an original investor.

A single skier on the slopes of the back corrie of Aonach Mor.

Group Investment Portfolio

The ten largest investments account for 77% 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	4,571	41
Submersible Television Surveys Limited	431	1,156	10
Falkirk Schools Partnership Limited	749	749	7
Harrock PLC	420	420	4
LH Project Limited (Larkfield Hospital)	360	360	3
GlaxoSmithKline plc*	249	319	3
KE Project Limited (James Watt College)	280	280	3
Scottish Power plc*	286	277	2
Royal & Sun Alliance PLC*	243	243	2
HBOS plc*	221	241	2
	3,747	**8,616**	**77**

* 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 in August 2000.

HARROCK PLC

The company was formed to acquire Wainhomes, a house-builder, 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 opened in February 2001 and will be operated by the company for a period of 25 years.

GLAXOSMITHKLINE PLC

GlaxoSmithKline 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.

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.

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.

ROYAL & SUN ALLIANCE INSURANCE GROUP plc

The principal activity of the Royal & Sun Alliance Group is the transaction of insurance business and the provision of related financial services. The Group operates in around fifty countries worldwide. The company is a constituent of the FTSE 100.

HBOS plc

The principal activities are banking, financial and related services in the United Kingdom provided through branches, offices, subsidiaries, joint ventures, associated undertakings and by telephone and other direct delivery channels. The company is a constituent of the FTSE 100.

Report of the Directors

and

Accounts

2001

QUAYLE MUNRO

HOLDINGS PLC

DIRECTORS

The Directors of the Company during the year ended 30th June 2001 were as follows:

I. Q. Jones (Chairman and Chief Executive)

J. C. Elliot (Executive)

A. A. T. Ostrowski (Executive)

A. C. Ritchie (Executive)

M. D. Watt (Executive) – appointed 22nd February 2001

J. D. Best (Executive) – appointed 13th October 2000

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

D. G. Sutherland (Non-Executive)

J. D. Best and M. D. Watt were appointed Directors during the year. In accordance with the Articles of Association they, being eligible, offer themselves for election. J. D. Best acted as an Executive Director until 4th August 2001, on which date he became Non-Executive.

In accordance with the Articles of Association A. A. T. Ostrowski retires by rotation and, being eligible, offers himself 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 2001. The profit before tax of the Group for the year was £1,034,000 (2000 – £919,000). After a tax charge of £74,000 (2000 – £53,000 credit) the profit for the year attributable to the ordinary shareholders amounted to £960,000 (2000 – £972,000).

The Directors recommend a final dividend of 10p (2000 – 9.5p) per ordinary share which, with the interim dividend of 5p (2000 – 4.75p) per ordinary share paid on 6th April 2001, makes a total of 15p (2000 – 14.25p) per ordinary share amounting to £524,000 (2000 – £490,000) for the year. In addition, the special dividend of 50p per share announced on 14th September 2000 was paid on 15th January 2001 and absorbed £1,747,000. The final dividend will be paid on 12th November 2001 to shareholders on the register on 19th October 2001.

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 46,330 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 30.6.00 or date of appointment	at 30.6.01	Options at 30.6.00 or date of appointment	Options at 30.6.01	Date of grant	Option price (p)	Nominal Exercise date From	To
I. Q. Jones	475,840	478,210	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	22,383	23.9.99	280	23.9.02	22.9.06
J. C. Elliot	347,865	350,235	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	14,247	23.9.99	280	23.9.02	22.09.06
A. A. T. Ostrowski	30,395	75,239	33,000	–	–	–	–	–
			10,053	–	–	–	–	–
			14,219	14,219	21.10.97	261	21.10.00	20.10.04
			8,516	8,516	23.9.99	280	23.9.02	22.9.06
A. C. Ritchie	857	2,247	9,487	9,487	21.10.97	261	21.10.00	20.10.07
			4,734	4,734	23.9.99	280	23.9.02	22.9.06
			1,871	1,871	23.9.99	280	23.9.02	22.9.09
M. D. Watt	–	–	5,415	5,415	23.9.99	280	23.9.02	22.9.09
J. D. Best	2,000	2,000	–	–	–	–	–	–
D. A. Ross Stewart	15,000	15,000	–	–	–	–	–	–
D. G. Sutherland	4,000	4,000	–	–	–	–	–	–

*held as trustee

On 22nd September 2000, A. A. T. Ostrowski exercised options over 33,000 ordinary shares at an exercise price of 118p per share and options over 10,053 ordinary shares at an exercise price of 158p per share. The market price on that date was 315p giving rise to a gain of £80,793 (2000 – £nil).

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 372·5p and the lowest mid-market price during the year was 250p. The mid-market price at the close of business on 30th June 2001 was 319p.

There have been no alterations in the shares or options held by directors shown above between 30th June 2001 and 19th September 2001. None of the Directors held any shares in any subsidiary company during the period.

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 19th September 2001 other than the Directors' interests set out above:

Uberior Investments PLC	1,019,550	29·2%
The Waterloo Corporation	367,234	10·5%
D. M. Munro	233,482	6·7%

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 2001 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 7 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 2nd February 2003, whichever is the earlier.

The Directors are also proposing a resolution to amend the rules of the Unapproved Share Option Scheme in order to permit an adjustment to be made to the terms of options granted in the event of a special dividend being paid. Details of this proposal are set out in a separate letter to shareholders sent out with this Report.

Recommendations

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 7 at the Annual General Meeting.

The Directors consider the proposal to amend the rules of the Unapproved Share Option Scheme is equitable and in the best interest of the Company and its shareholders taken as a whole and, accordingly, unanimously recommend shareholders to vote in favour of Resolution 8 at the Annual General Meeting.

Auditors

On 28th June 2001, Ernst & Young LLP, the Group's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28th June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board
A. A. T. Ostrowski, Secretary
19th September 2001

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. The additional guidance set out in "Internal Control Guidance for Directors on the Combined Code" (The Turnbull guidance), which was published in September 1999, was implemented as at 1st July 2000.

Throughout the year ended 30th June 2001 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.

Board

At the year end the Board comprised the Chairman and Chief Executive (in a combined role), two Non-Executive Directors, and five other Executive Directors. The Non-Executive appointments are considered independent. The senior Non-Executive Director is D. G. Sutherland. Although the combination of the role of Chairman and Chief Executive contravenes Provision A.2.1, the Board consider this to be appropriate given the size and composition of the current Board. Code Provision A.3.1 was not complied with in the period between 22nd February 2001 and the year-end in so far as the number of Non-Executive Directors fell below the level of one-third of the Board.

Biographies appear on page 2 which demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standard 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 independent professional advice is available to all Directors at the Company's expense.

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 as 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 Reports on pages 5 to 11 include 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 Friday, 2nd November 2001 can be found in the Notice of Meeting enclosed with this Report.

Internal Control

The Directors are responsible for establishing and maintaining the Group's systems of internal control and for reviewing its effectiveness. These systems are intended to manage rather than eliminate the risk of failure to achieve business objectives, and it should be recognised that as such they can provide only reasonable and not absolute assurance against material financial misstatement or loss.

As prescribed in the guidance of the Turnbull Committee on internal control, an ongoing process has been established for identifying, evaluating on and managing significant risks faced by the Group. This process has been in place throughout the financial year and up to the date of the approval of the financial statements. The process is regularly reviewed at Board meetings and amended as required.

As part of the ongoing process the Board reviews and evaluates the risks to the achievement of its strategic objectives. Having recognised these risks, mitigating controls are then identified together with any action necessary to enhance the effectiveness of these controls.

The Board obtains its assurance on the effectiveness of the control system from periodic reports from the Chairman of the Audit Committee, periodic reviews of performance against budgets, reports from the regular executive meetings held to monitor and guide the group's performance and its compliance with the clearly defined capital investment guidelines.

After due consideration the Directors have decided that the establishment of an internal audit function is unnecessary.

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, and annual and long term incentives 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

The Executive Directors participate 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 by other employees amount to 3% of base salary and the Group is responsible for any additional cost. Only base salary 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

The Executive Directors of the Group at 30th June 2001 apart from J. D. Best, A. C. Ritchie and M. D. Watt 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 certain of 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.

The Directors do not propose to change the Articles of Association in order to comply with Code Provision A.6.1 as they consider the current arrangements to be appropriate to the size and current composition of the Board.

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 48, 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 1985. 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 consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Group's corporate governance procedures or its risk and control procedures.

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 2001 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 LLP
Registered Auditor
Edinburgh
19th September 2001

Group Profit and Loss Account

For the year ended 30th June 2001

	Notes	2001 £'000	2000 £'000
Turnover	2	**1,402**	665
Movements in work in progress		**(4)**	174
		1,398	839
Gain/(loss) on trading in financial instruments		**2**	(140)
Other operating charges	3	**(1,628)**	(1,221)
Operating (Loss)		**(228)**	(522)
Profit on sales of fixed asset investments		**546**	561
Income from investments	4	**661**	849
Interest receivable		**96**	73
Loan interest payable		**(41)**	(42)
Profit before Taxation		**1,034**	919
Tax (charge)/credit	8	**(74)**	53
Profit attributable to Members of Parent Company		**960**	972
Dividends on equity shares	9	**(2,275)**	(494)
Retained (Loss)/Profit for the Year	22	**(1,315)**	478
Basic Earnings per Share	11	**27·6p**	28·4p
Diluted Earnings per Share	11	**27·1p**	28·2p

Group Balance Sheet

AS AT

30TH JUNE 2001

	Notes	2001 £'000	2001 £'000	2000 £'000	2000 £'000
FIXED ASSETS					
Tangible assets	12		**1,481**		1,453
Investments – listed		**3,087**		4,146	
– unlisted		**8,075**		6,464	
	13		**11,162**		10,610
			12,643		12,063
CURRENT ASSETS					
Debtors	15	**711**		806	
Work in progress		**212**		216	
Taxation recoverable	8	**91**		91	
Short term deposits and cash at bank	16	**1,622**		1,814	
		2,636		2,927	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Bank loan	17	**43**		43	
Creditors	18	**468**		222	
Taxation payable	8	**66**		–	
Proposed dividends		**349**		327	
		926		592	
NET CURRENT ASSETS			**1,710**		2,335
TOTAL ASSETS LESS CURRENT LIABILITIES			**14,353**		14,398
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
Bank loan	17		**(510)**		(553)
PROVISIONS FOR LIABILITIES AND CHARGES					
Deferred taxation	19		**–**		(2)
TOTAL NET ASSETS			**13,843**		13,843
CAPITAL AND RESERVES					
Called up share capital	20		**349**		345
Share premium account	21		**704**		648
Revaluation reserve	22		**3,093**		1,821
Other reserves	22		**1,356**		1,356
Profit and loss account	22		**8,341**		9,673
EQUITY SHAREHOLDERS' FUNDS	23		**13,843**		13,843

The accounts on pages 27 to 48 were approved by the Board of Directors on 19th September 2001 and are signed on their behalf by:

I. Q. JONES, Chairman and Chief Executive

Company Balance Sheet

as at 30th June 2001

	Notes	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Fixed Assets					
Investments – unlisted			**8,077**		6,466
– subsidiary undertakings			**3,373**		3,373
	13		**11,450**		9,839
Current Assets					
Debtors	15	**390**		263	
Taxation recoverable	8	**71**		66	
Amounts due by subsidiary undertakings		**975**		3,331	
Short term deposits and cash at bank		**1,486**		1,242	
		2,922		4,902	
Creditors: Amounts falling due within one year					
Creditors	18	**40**		40	
Taxation payable	8	**42**		–	
Amounts due to subsidiary undertakings		**2,746**		2,741	
Proposed dividends		**349**		327	
		3,177		3,108	
Net Current (Liabilities)/Assets			**(255)**		1,794
Total Net Assets			**11,195**		11,633
Capital and Reserves					
Called up share capital	20		**349**		345
Share premium account	21		**704**		648
Revaluation reserve	22		**2,387**		970
Other reserves	22		**3,931**		3,931
Profit and loss account	22		**3,824**		5,739
Equity Shareholders' Funds			**11,195**		11,633

The accounts on pages 27 to 48 were approved by the Board of Directors on 19th September 2001 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 2001

	Notes	2001 £'000	2000 £'000
Profit attributable to members of Parent Company		**960**	972
Revaluation of property		**–**	185
Unrealised revaluation gains during the year		**1,265**	137
Taxation (charged)/credited directly to reserves	8	**(10)**	62
Total Recognised Gains relating to the year		**2,215**	1,356
Return per Share	24	**63·6p**	39·6p

Note of Historical Cost Profits and Losses

FOR THE YEAR ENDED 30TH JUNE 2001

	2001 £'000	2000 £'000
Reported profit on ordinary activities before taxation	**1,034**	919
Realisation of revaluation gains of previous years	**(7)**	77
Historical cost profit on ordinary activities before taxation	**1,027**	996
Historical cost (loss)/profit for the year retained after taxation and dividends	**(1,332)**	617

Statement of Group Cash Flows

for the year ended 30th June 2001

	Notes	2001 £'000	2000 £'000
Net Cash (Outflow) from Operating Activities	5(a)	**(10)**	(1,040)
Returns on Investments and Servicing of Finance			
Interest received		**97**	73
Interest paid		**(41)**	(42)
Dividends received		**290**	525
Loan stock interest received		**322**	186
Net Cash Inflow from Returns on Investments and Servicing of Finance		**668**	742
Taxation		**(60)**	(114)
Capital Expenditure and Financial Investment			
Purchases of fixed asset investments		**(1,241)**	(2,480)
Sales of fixed asset investments		**2,775**	4,070
Purchases of tangible fixed assets		**(113)**	(10)
Sales of tangible fixed assets		**25**	–
Net Cash Inflow from Capital Expenditure and Financial Investment		**1,446**	1,580
Equity Dividends Paid		**(2,253)**	(473)
Cash (Outflow)/Inflow before use of Liquid Resources and Financing		**(209)**	695
Management of Liquid Resources	5(b)	**218**	(665)
Financing			
Decrease in Debt	5(c)	**(43)**	(42)
Issue of ordinary shares		**60**	61
Cash Inflow from Financing		**17**	19
(Decrease)/Increase in Cash	5(c)	**(410)**	49

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.

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 2001. 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 financial instruments are readily marketable. The accounting treatment adopted represents a fairer reflection of the operating profit.

1. ACCOUNTING POLICIES – continued

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

Land is not depreciated. 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, which is now closed for new members of staff. 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. For new members of staff, the Group operates a defined contributions pension scheme.

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 2000 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.

	2001 £'000	2000 £'000
Corporate finance fee income	**1,170**	427
Other fee income	**232**	238
	1,402	665

Turnover was derived in the United Kingdom. £nil income was derived from overseas (2000 – £nil).

3. Other Operating Charges

Other operating charges include:

		2001 £'000	2000 £'000
Staff costs (note 7)		**1,167**	830
Depreciation		**59**	31
Loss on sale of tangible fixed assets		**1**	–
Operating lease rentals	– office equipment	**6**	6
Auditors' remuneration	– audit fees	**28**	30
	– non audit fees	**51**	21

4. Income from Investments

	2001 £'000	2000 £'000
Dividends	**296**	501
Loan stock interest	**365**	348
	661	849
Income from participating interests, included above	**242**	325

5. Cash Flows

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

	2001	2000
	£'000	£'000
Operating (loss)	**(228)**	(522)
Depreciation	**59**	31
Loss on sales of tangible fixed assets	**1**	–
(Increase) in debtors	**(86)**	(41)
Decrease in financial instruments held for trading	**–**	64
Decrease/(increase) in work in progress	**4**	(174)
Increase/(decrease) in creditors	**240**	(398)
Net cash (outflow) from operating activities	**(10)**	(1,040)

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

	2001	2000
	£'000	£'000
(Decrease)/increase in cash in the year	**(410)**	49
Cash outflow from repayment of debt	**43**	42
Cash used to increase liquid resources	**218**	665
Movement in net funds in the year	**(149)**	756
Net funds at 30th June 2000	**1,218**	462
Net funds at 30th June 2001	**1,069**	1,218

5(c). Analysis of Net Funds

	As at 30th June 2000	Cashflow	Non-cash movements	**As at 30th June 2001**
	£'000	£'000	£'000	**£'000**
Cash on hand	879	(410)	–	**469**
Deposits repayable after 24 hours	935	218	–	**1,153**
Debt due within one year	(43)	43	(43)	**(43)**
Debt due after one year	(553)	–	43	**(510)**
Total	1,218	(149)	–	**1,069**

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 **2001** £'000	Performance related bonuses **2001** £'000	Taxable benefits **2001** £'000	Total **2001** £'000
I. Q. Jones	**170**	**43**	**18**	**231**
J. C. Elliot	**137**	**31**	**1**	**169**
A. A. T. Ostrowski	**78**	**18**	**2**	**98**
A. C. Ritchie	**60**	**14**	**2**	**76**
M. D. Watt	**18**	**11**	**2**	**31**
J. D. Best	**89**	**–**	**7**	**96**
D. A. Ross Stewart	**5**	**–**	**–**	**5**
D. G. Sutherland	**9**	**–**	**–**	**9**

	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

(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 under the defined benefits pension scheme 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 2000 £'000	Accumulated total accrued pension at 30th June 2001 £'000
I. Q. Jones	11	178	88	**100**
J. C. Elliot	5	59	24	**30**
A. A. T. Ostrowski	2	26	10	**13**
A. C. Ritchie	1	6	3	**4**
M. D. Watt	1	4	–	**1**

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

7. Staff Costs

	2001 £'000	2000 £'000
Wages and salaries	**795**	654
Social security costs	**93**	73
Other pension costs	**279**	103
	1,167	830

The average number of employees during the year was 10 (2000 – 9).

8. Taxation

	2001 £'000	2000 £'000
Group Profit and Loss Account		
Corporation tax at 30% (2000 – 30%)	**(112)**	29
(Under)/over provision in prior years	**(3)**	24
	(115)	53
Deferred tax	**41**	–
	(74)	53

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 £nil (2000 – £8,000). The tax charge for the year has benefited to the extent of £21,000 (2000 – £98,000 credit) 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 £1,121,000 (2000 – £896,000) would arise. A subsidiary undertaking has £1,451,000 of capital losses available for carry forward at 30th June 2001 (2000 – £1,523,000).

Balance Sheet	2001 £'000	2000 £'000
Group		
Tax recoverable	**57**	57
Advance corporation tax recoverable	**34**	34
	91	91
Corporation tax payable	**66**	–
Company		
Tax recoverable	**37**	32
Advance corporation tax recoverable	**34**	34
	71	66
Corporation tax payable	**42**	–
Group Statement of Total Recognised Gains and Losses		
Corporation tax at 30% (2000 – 30%)	**(10)**	62

9. Dividends

	2001 £'000	2000 £'000
Additional final dividend for 2000	**4**	4
Special interim dividend	**1,747**	–
Interim dividend of 5p (2000 – 4·75p)	**175**	163
Final dividend of 10p (2000 – 9·5p)	**349**	327
	2,275	494

10. Profit Attributable to Members of the Parent Undertaking

The profit dealt with in the accounts of the parent company was £370,000 (2000 – £421,000).

11. Earnings per Share

	2001	2000
Basic earnings per share	**27·6p**	28·4p
Diluted earnings per share	**27·1p**	28·2p

The calculation of basic earnings per share is based on earnings of £960,000 (2000 – £972,000) and on 3,482,879 ordinary shares, being the weighted average number of shares in issue during the year (2000 – 3,428,734).

The calculation of diluted earnings per share is based on the weighted average of 3,535,534 ordinary shares (2000 – 3,453,138) and the average share price during the year, calculated as follows:

	2001	2000
Basic weighted average number of shares	**3,482,879**	3,428,734
Dilutive potential ordinary shares:		
Employee share options	**52,655**	24,404
	3,535,534	3,453,138

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 2000	1,265	318	52	1,635
Additions	–	51	62	113
Disposals	–	–	(52)	(52)
At 30th June 2001	**1,265**	**369**	**62**	**1,696**
Depreciation				
At 30th June 2000	–	157	25	182
Charge for the period	20	25	14	59
Disposals	–	–	(26)	(26)
At 30th June 2001	**20**	**182**	**13**	**215**
Net book value				
At 30th June 2001	**1,245**	**187**	**49**	**1,481**
At 30th June 2000	1,265	161	27	1,453

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 RCIS Appraisal and Valuation Manual. The valuation of the property has not been updated as the Group has adopted the transitional arrangements permitted by FRS 15.

The historical cost of the property is £1,080,000. If the property had not been revalued the net book value at 30th June 2001 would be £1,063,000 (2000 – £1,080,000).

13. Investments

	2001 £'000	2000 £'000
Group		
Valuation		
At 30th June 2000	**10,610**	11,426
Additions	**1,241**	2,480
Disposals	**(1,954)**	(3,433)
Revaluation in year	**1,265**	137
At 30th June 2001	**11,162**	10,610
Of which:		
Listed investments	**3,087**	4,146
Shares in participating interests	**1,236**	1,447
Loans to participating interests	**560**	560
Investment in joint venture	**105**	–
Other shares	**2,995**	1,243
Other loans	**3,179**	3,214
	11,162	10,610
Historical cost of investments	**8,069**	8,789

Valuation of Participating Interests

	Investments in securities £'000	Investments in loans £'000
At 30th June 2000	**1,447**	560
Revaluation in year	**(211)**	–
At 30th June 2001	**1,236**	**560**

13. INVESTMENTS – continued

	2001 £'000	2000 £'000
Company		
Cost or Valuation		
At 30th June 2000	**9,839**	9,187
Additions	**230**	–
Disposals	**(36)**	(36)
Revaluation in year	**1,417**	688
At 30th June 2001	**11,450**	9,839
Of which:		
Shares in participating interests	**1,236**	1,447
Loans to participating interests	**560**	560
Investment in joint venture	**105**	–
Other shares	**2,997**	1,245
Other loans	**3,179**	3,214
Subsidiary undertakings	**3,373**	3,373
	11,450	9,839
Historical cost of investments	**9,063**	8,869

Valuation of Participating Interests

	Investments in securities £'000	Investments in loans £'000
At 30th June 2000	**1,447**	560
Revaluation in year	**(211)**	**–**
At 30th June 2001	**1,236**	**560**

Subsidiary Undertakings

	2001 £'000	2000 £'000
At 30th June 2000	**3,373**	3,373
Written off in year	**–**	–
At 30th June 2001	**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/(Loss) for the period £'000
Morris Group Limited (accounts to 31.3.01)	'A' Ordinary Shares of £1 each	23·4	4,981	2,098
KE Project Limited (James Watt College) (accounts to 30.6.00)	Ordinary Shares of 1p each	40·0	113	13
LH Project Limited (Larkfield Hospital) (accounts to 31.3.01)	Ordinary Shares of 1p each	40·0	39	(44)
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

Joint venture undertaking

Company	Country of Registration	Holding	Proportion held	Nature of Business
Quayle Munro PFI Fund Limited Partnership	Scotland	Partnership	25%	PFI Investment Vehicle

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.

Cash balances are held in floating rate accounts and short term deposits are held in 7 day fixed 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	
	2001 £'000	2000 £'000	**2001 %**	2000 %	**2001 years**	2000 years
Non-interest bearing	**6,812**	5,341	**–**	–	**–**	–
Floating rate (LIBOR related)	**2,097**	2,305	**–**	–	**–**	–
Fixed rate – preference shares	**591**	1,495	**8·1**	9·2	**0·0**	0·6
– other	**3,284**	3,283	**8·1**	9·5	**5·3**	11·7
	12,784	12,424				

15. Debtors

	2001 £'000	2000 £'000
Group		
Trade debtors	**223**	211
Proceeds due from sales of investments	**–**	275
Other debtors	**81**	4
Prepayments and accrued income	**367**	316
Deferred taxation	**40**	–
	711	806
Company		
Other debtors	**70**	–
Prepayments and accrued income	**320**	263
	390	263
Group and Company		
Amounts falling due after more than one year included in prepayments and accrued income	**233**	207

16. Cash and Deposits

	2001 £'000	2000 £'000
Group		
Balances repayable within 24 hours	**469**	879
Deposits repayable after more than 24 hours	**1,153**	935
	1,622	1,814

17. Bank Loan

	2001 £'000	2000 £'000
Group		
Amounts repayable in instalments:		
After five years	**341**	384
Between two and five years	**127**	127
Between one and two years	**42**	42
	510	553
Within one year	**43**	43
	553	596

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

	2001 £'000	2000 £'000
Group		
Trade creditors	**13**	16
Other creditors	**36**	34
Accruals	**370**	154
Other taxes and social security costs	**49**	18
	468	222
Company		
Trade creditors	**1**	12
Other creditors	**3**	–
Accruals	**36**	28
	40	40

19. Provisions for Liabilities and Charges

	£'000
Group	
Deferred taxation	
At 30th June 2000	(2)
Arising during the year	42
At 30th June 2001 (note 15)	**40**

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

Group

	Provided		Not provided	
	2001 £'000	2000 £'000	**2001 £'000**	2000 £'000
Capital allowances in advance of depreciation	**(10)**	(2)	**–**	–
Short term timing differences	**50**	–	**–**	–
	40	(2)	**–**	–

20. Share Capital

	2001 Number	2000 Number	**2001 £'000**	2000 £'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	**3,493,414**	3,447,084	**349**	345

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 beginning of the year was 33,000, and on 22nd September 2000 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 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. On 22nd September 2000 13,330 ordinary shares were allotted pursuant to exercises of those options. A premium of £20,000 arose on the issue of these shares. At the end of the year, options over 23,387 shares remained in force and are exercisable between 21st March 1998 and 20th March 2002 at 158p per ordinary shares.

20. Share Capital – continued

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 2001 and 20th October 2004 at 261p per ordinary share and 13,651 options are exercisable between 21st October 2001 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.

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 2000	648
Arising on share issues	56
At 30th June 2001	**704**

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 2000	**1,821**	127	1,229	**1,356**	**9,673**
Appreciation in investments	**1,265**	–	–	**–**	**–**
Transfer to profit and loss account	**7**	–	–	**–**	**(7)**
Taxation	**–**	–	–	**–**	**(10)**
Retained loss for year	**–**	–	–	**–**	**(1,315)**
At 30th June 2001	**3,093**	127	1,229	**1,356**	**8,341**

The cumulative amount of goodwill written off at 30th June 2001 was £2,575,000 (2000 – £2,575,000).

	Revaluation Reserve	Capital Redemption Reserve	Merger Reserve	**Other Reserves Total**	**Profit and Loss Account**
Company					
At 30th June 2000	**970**	127	3,804	**3,931**	**5,739**
Appreciation in investments	**1,417**	–	–	**–**	**–**
Taxation	**–**	–	–	**–**	**(10)**
Retained loss for year	**–**	–	–	**–**	**(1,905)**
At 30th June 2001	**2,387**	127	3,804	**3,931**	**3,824**

23. Reconciliation of movement in shareholders' funds

	2001 £'000	2000 £'000
Total recognised gains and losses	**2,215**	1,356
Dividends	**(2,275)**	(494)
Net addition to shareholders' funds	**(60)**	862
Opening shareholders' funds	**13,843**	12,920
Options exercised over ordinary shares	**60**	61
Closing shareholders' funds	**13,843**	13,843

Shareholders' funds consist of equity interests only.

24. Return per Share

The calculation of return per share is based on total recognised gains of £2,215,000 (2000 – £1,356,000) and on 3,482,879 ordinary shares, being the weighted average number of shares in issue during the year (2000 – 3,428,734). Return per share when diluted for options granted is 62·6p (2000 – 39·3p), and the calculation is based on the weighted average of 3,535,534 ordinary shares (2000 – 3,453,138) and the average share price during the year.

25. Contingent liabilities

The Company has guaranteed £250,000 (2000 – £250,000) in respect of a subsidiary company.

26. Operating lease commitments

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

	2001 £'000	2000 £'000
Operating leases which expire within one year	**–**	–
Operating leases which expire within two to five years	**6**	6
	6	6

27. PENSION COMMITMENTS

The Group operates a defined benefits pension scheme which is funded by the payment of contributions to a separately administered trust fund. This scheme is now closed to new employees. Consequently, under the projected unit credit method the current service cost will increase as the members of the scheme approach retirement. The Group also makes payment of defined contributions on behalf of new employees.

(a) *Pension costs*

The contributions to the defined benefits pension scheme are determined by a qualified actuary on the basis of triennial valuation using the attained age method. The most recent such valuation was as at 1st July 1999. It was subsequently updated as at 21st June 2001. 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	8% per annum
Rate of salary increases	6·5% 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 £279,000 (2000 – £103,000). The accrual at 30th June 2001 for outstanding contributions was £165,000 (2000 – £nil). 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 £2,576,000 and that the actuarial value of those assets held for the final salary benefits represented 92% of the benefits that had accrued to members after allowing for expected future increases in earnings. The resultant deficit is being amortised over the anticipated remaining service lives of the members. The contributions of the company during the year were 16·6% of pensionable salaries. The contributory employees' contribution rate is 3% p.a. of pensionable salaries.

The accrual at 30th June 2001 for outstanding contributions to the defined contribution arrangements was £14,000 (2000 – £nil).

(b) *FRS 17 retirement benefits*

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 1st July 1999 and updated by Alba Life Limited to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 21st June 2001. Scheme assets are stated at their market value at 21st June 2001.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method	Attained age
Discount rate	8·0%
Inflation rate	4·5%
Rate of salary increases	6·5%

27. PENSION COMMITMENTS – continued

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 30th June 2001 £'000	Value at 30th June 2001 £'000
Fixed interest fund		638
Cash fund		130
Managed fund		1,808
Total market value of assets	8%	2,576
Present value of scheme liabilities		(2,794)
Deficit in the scheme		(218)
Related deferred tax asset		65
Net pension liability		(153)

Net assets	Group 2001 £'000
Net assets	13,843
Pension scheme provision	165
Net pensions liability	(153)
Net assets including net pensions liability	13,855

Reserves	Group 2001 £'000
Profit and loss account excluding net pensions liability	8,341
Net pensions liability	(153)
Profit and loss account including net pensions liability	8,188

28. NET ASSET VALUE PER SHARE

The net asset value per share was 396·2p (2000 – 401·6p) based on net assets of £13,843,000 (2000 – £13,843,000) and on 3,493,414 (2000 – 3,447,084) ordinary shares in issue at 30th June 2001.

The fully diluted net asset value per share was 386·7p (2000 – 388·3p). 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 (2000 – 3,739,024) and increased net assets of £14,458,000 (2000 – £14,519,000).

The diluted net asset value per share calculated in accordance with FRS 14 is 390·4p (2000 – 398·8p). This is based on net assets and on 3,546,069 (2000 – 3,471,488) ordinary shares, being the number of ordinary shares in issue at 30th June 2001 plus 52,655 (2000 – 24,404) ordinary shares, being the notional number of shares that would have been issued for no consideration using a year end share price of 319p (2000 – 252·5p) to represent the fair value of an ordinary share.

Notice of Annual General Meeting

Notice is hereby given that the Twenty-First Annual General Meeting of the Company will be held at 8 Charlotte Square, Edinburgh on Friday, 2nd November 2001 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 2001.
2. To declare a final dividend.
3. To elect Mr J. D. Best as a Director.
4. To elect Mr M. D. Watt as a Director.
5. To re-elect A. A. T. Ostrowski as a Director.
6. To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.

Special Business

7. 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 £17,467, 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 2nd February 2003, 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.

8. To consider and, if thought fit, pass the following resolution as an Oridnary Resolution:
   That the amendments to the rules of the Quayle Munro Holdings PLC 1995 Unapproved Share Option Scheme, in the form produced to the meeting and marked A for the purposes of identification, the effects of which are summarised in the circular to shareholders dated 2nd October 2001 be approved and adopted.

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.

AMENDED RULES OF THE QUAYLE MUNRO HOLDINGS PLC UNAPPROVED SHARE OPTION SCHEME

Amended Rules of the Quayle Munro Holdings PLC Unapproved Share Option Scheme will be available both at the offices of Maclay Murray & Spens, 10 Foster Lane, London EC2V 6AR and at the Registered Office of the Company until the conclusion of the Annual General Meeting.

Registered Office
8 Charlotte Square
Edinburgh EH2 4DR
2nd October 2001

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