Birmingham Chamber of Commerce and Industry

Report and Accounts

31 March 2002

Registered Number 78731

OPERATING AND FINANCIAL REVIEW

Result for the year

On the 26th March 2001, the Chamber commenced operation of the Small Business Service (SBS) contract for the Birmingham & Solihull sub-region under the Business Link brand. On that date, employees from Birmingham Business Link, Solihull Business Partnership and the Training & Enterprise Council joined the Chamber to provide the resource necessary to operate the service. As predicted in last year's review, the contract brought a significant change to the level of the Chamber's operations and offered a major opportunity to strengthen the Chamber's financial position.

This significant change is reflected in the group's income and expenditure account for the year ended 31st March 2002. Income at £24 million far exceeded the £8 million for the prior 15 month period. However, expenditure also increased due to the changes in both the size and nature of the Chamber's operations, including increased staff costs following growth in the average number of employees from 138 to 219. The resulting operating surplus for the year of £163,000 was as budgeted but was reduced by an unforeseeable provision of £35,000 against the value of fixed asset investments. Following net interest charges of £47,000, a surplus before tax of £81,000 was achieved.

The 2000/01 report explained last year that the operating deficit of £128,000 for the 15 months to 25th March 2001 was adversely affected by an extension of the accounting period. This and the significant change in the level of the Chamber's operations in 2001 create a difficulty in making a meaningful comparison between this year's operating surplus and the previous period's operating deficit.

It is more useful to look at how the divisions within the Chamber contributed to the 2001/02 result:

Business Area Review

Chamber Operations produced a break-even operating result for the year. A healthy contribution from International activities and the continued success of the patronage scheme added to subscription income to help support member services and lobbying activities.

In its first year of operation under the SBS contract, the Business Link division strengthened the Chamber's financial position during 2001/02. Funding attracted by the SBS contract and other income streams together with economies of scale made a good contribution to the group's operating surplus. SBS related income totalled £12 million of which over £9 million was grant income used to provide subsidised business services to SMEs in Birmingham and Solihull.

As well as the SBS contract, the Chamber also managed a number of Regional Projects during the year, including Accelerate (supporting the automotive supply chain) and Mustard (supporting high growth start-ups). This involved allocating funding to the value of £8 million to provide subsidised assistance to SMEs on a non-profit basis.

Birmingham Chamber Training Limited (BCT) continued to experience difficult trading conditions from increased competition. Important structural changes within the training market have had an impact on all organisations involved in training delivery. Reorganisation measures were implemented to help the business adapt to the changes as BCT has re-positioned itself in the market.

Looking to the Future

The expansion of the Chamber's operations in 2001/02 will continue to offer a major opportunity to improve the Chamber's financial position in 2002/03. Whilst a great deal of work has successfully been done to create an integrated organisation, this will continue for the benefit of the business community which the Chamber serves.

BCT is expected to have another challenging year in 2002/03 and the company's board will continue to look at the best way to position the company in uncertain markets.

As in previous years, property maintenance issues will feature significantly in the coming year as plans to improve Chamber of Commerce House and the Training Centre in Digbeth are progressed. However, the Chamber's strengthened financial position has left it well placed to deal with these challenges.

REPORT OF THE DIRECTORS

The directors present their report and the group accounts for the year ended 31st March 2002.

Principal activities
The group's principal activities during the year continued to be the provision of services to members and the promotion of commerce and industry. The Birmingham Chamber of Commerce and Industry (BCI) is a s.30 company limited by guarantee and the liability of each member is limited to £1.05.

A business review for the year is set out in the Operating and Financial Review.

Results for the year
The group results include those of Birmingham Chamber Training Limited (BCT) being a wholly owned subsidiary undertaking of BCI.

The group surplus before tax amounted to £81,000 (15 months to 25th March 2001 - deficit £193,000) and has been taken to reserves.

Directors and their interests
The directors, including the Honorary Officers, as at 31st March 2002 and those who served during the year were as follows:

J A Hart (President)
J H Pratt (Vice-president)
D L Grove (Vice-president) – appointed 11/7/01
L D Maclean (Immediate Past President)
J L Hudson (Immediate Past President) – resigned 11/7/01
S Battle OBE (Chief Executive BCI)
M A Hibbert (Finance Director BCI)
B S Cleverdon (President Solihull Chamber) – resigned 26/4/02
M Singh Ghattaura (Chairman Institute of Asian Businesses)
R D Murray (Chairman Birmingham Chamber Training Limited) – appointed 11/7/01
D Clarke (Birmingham Forward – Co-opted Member)
R J Dickens CBE DL (Co-opted Member)
K S Ward (Co-opted Member) – appointed 11/7/01
S A S Eccleston (Elected Member) – resigned 11/7/01
T Gateley (Elected Member) – appointed 11/7/01
Dr P C Knight CBE (Elected Member)
O S Parmar (Elected Member) – resigned 11/7/01
N S Pountney (Elected Member)
E J Roberts CBE (Elected Member) – appointed 11/7/01
P F Traynor (Elected Member) – resigned 11/7/01
R H Wall (Elected Member) – appointed 11/7/01
R V Wharton (Elected Member)

There are no directors' interests requiring disclosure under the Companies Act 1985.

Political and charitable contributions
No contributions were made to any political or charitable organisations during the year.

Auditors
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

M A Hibbert
Secretary
10th July 2002

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
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. 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.

GROUP INCOME & EXPENDITURE ACCOUNT
for the year ended 31st March 2002

	Note	2002 12 months £000	2001 15 months £000
Income	2	**23,597**	7,981
Expenditure			
Administrative expenses	3	**23,434**	8,109
Operating surplus/(deficit)		**163**	(128)
(Deficit)/surplus on disposal of fixed asset investments	12	**(35)**	26
		128	(102)
Interest paid less received	7	**(47)**	(91)
Surplus/(deficit) before and after tax	18	**81**	(193)

Statement of total recognised gains and losses

There are no recognised gains and losses other than the surplus of £81,000 for the year ended 31st March 2002 and the deficit of £193,000 for the period ended 25th March 2001.

BALANCE SHEETS
at 31st March 2002

	Note	**Group 2002 £000**	Group 2001 £000	**Company 2002 £000**	Company 2001 £000
Fixed assets					
Tangible assets	10	**1,691**	1,541	**1,573**	1,417
Investments:					
Shares in subsidiary undertakings	11	**-**	-	**1**	1
Other investments	12	**540**	652	**540**	652
		2,231	2,193	**2,114**	2,070
Current assets					
Stocks		**38**	29	**29**	19
Debtors	13	**6,922**	1,915	**6,419**	1,335
Cash at bank and in hand	14	**123**	45	**123**	44
		7,083	1,989	**6,571**	1,398
Current Liabilities					
Bank overdraft	14	**671**	209	**766**	304
Creditors falling due within one year	15	**4,955**	1,591	**4,798**	1,397
		5,626	1,800	**5,564**	1,701
Net current assets/(liabilities)		**1,457**	189	**1,007**	(303)
Total assets less current liabilities		**3,688**	2,382	**3,121**	1,767
Creditors falling due after more than one year					
Loans	16	**1,743**	567	**1,743**	567
Deferred income - capital grant		**24**	-	**24**	-
		1,767	567	**1,767**	567
Provisions for liabilities and charges	17	**395**	370	**346**	370
		1,526	1,445	**1,008**	830
Represented by:					
Reserves	18	**1,526**	1,445	**1,008**	830

Signed on behalf of the Board:

J A Hart
President

10th July 2002

GROUP CASH FLOW STATEMENT
for the year ended 31st March 2002

	Note	£000	2002 12 months £000	£000	2001 15 months £000
Net cash (outflow)/inflow from operating activities	9		**(1,319)**		88
Returns on investments and servicing of finance					
Interest received		**9**		1	
Interest paid		**(56)**		(92)	
Dividends received		**15**		21	
Net cash outflow from returns on investments and servicing of finance			**(32)**		(70)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(292)**		(83)	
Purchase of investments		**(32)**		(76)	
Sale of investments		**109**		155	
Net cash outflow from capital expenditure and financial investment			**(215)**		(4)
Net cash (outflow)/inflow before financing			**(1,566)**		14
Financing					
New loan		**1,250**		-	
Repayment of medium-term loan		**(68)**		(78)	
			1,182		(78)
Decrease in cash in the year			**(384)**		(64)

Reconciliation of net cash flow to movement in net debt

	Note	2002 £000	2001 £000
Decrease in cash in the year		**(384)**	(64)
Repayment of medium-term loan		**68**	78
New loan		**(1,250)**	-
Movement in net debt		**(1,566)**	14
Net debt at beginning of the year		**(799)**	(813)
Net debt at end of the year	14	**(2,365)**	(799)

Cash flow relating to exceptional items
The 2002 operating cash outflows include an outflow of £49,000 (2001 - £56,000) relating to exceptional items (note 6).

NOTES TO THE ACCOUNTS
at 31st March 2002

1. Accounting policies

Basis of preparation
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Deferral of income
Membership subscription income is not recognised until cash is received and is deferred to the extent that it relates to future years.

Basis of consolidation
The group accounts consolidate the accounts of BCI and all its subsidiary undertakings drawn up to 31st March 2002. No income and expenditure account is presented for BCI as permitted by s.230 of the Companies Act 1985.

Depreciation
Depreciation is provided on tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Leasehold property	- 50 years
Fixtures and equipment	- 5 to 8 years
Computers	- 3 to 5 years

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

Government grants
Government grants in respect of capital expenditure are credited to a deferred income account and are released over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Stocks
Stocks are valued at the lower of cost and net realisable value.

Investments
Listed investments are shown at cost less provision for permanent diminution in value.

Pensions
The group operates both a funded defined benefit pension scheme and a non-contributory defined contribution pension scheme.

Contributions made to the group's defined benefit pension scheme are charged in the income and expenditure account so as to spread the cost of pensions over the service lives of employees in the scheme. Variations in pension cost, which are identified by actuarial valuations using the projected unit credit method, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the income and expenditure account are treated as either provisions or prepayments in the balance sheet. The current status of the pension scheme is set out in note 21.

Contributions made to the defined contribution pension scheme are charged in the income and expenditure account as they become payable in accordance with the rules of the scheme.

Provisions for liabilities and charges
Provision for the advised cost of rectifying leased property dilapidations is charged in the income and expenditure account over the remaining term of the lease in equal annual amounts.

NOTES TO THE ACCOUNTS
at 31st March 2002

1. Accounting policies (continued)

Leasing
Operating lease rentals are charged in expenditure on a straight-line basis over the lease term.

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

There has been no effect of the implementation of FRS 19, Deferred Taxation.

2. Income
Income represents the amounts derived from the provision of goods and services in the UK which fall within the group's continuing ordinary activities, stated net of value added tax. Income is attributable to the following business areas:

	2002	2001
	12 months	15 months
	£000	£000
Membership subscriptions	**790**	920
Regional Projects	**8,687**	-
Grant income	**6,348**	-
General services	**5,762**	4,168
Training income	**1,916**	2,386
Rental income	**79**	486
Income from listed investments	**15**	21
	23,597	7,981

3. Administrative expenses
Included in administrative expenses are the following:

	2002	2001
	12 months	15 months
	£000	£000
Staff costs (note 4)	**5,097**	2,946
Exceptional items (note 6)	**49**	56
Auditors' remuneration	**24**	16
Depreciation	**142**	215
Operating lease rentals - plant and machinery	**113**	137
- land and buildings	**93**	104

NOTES TO THE ACCOUNTS
at 31st March 2002

4. Staff costs

	2002 12 months £000	2001 15 months £000
Salaries and wages	4,579	2,782
Social security costs	411	230
Other pension costs/(credits)	107	(66)
	5,097	2,946

The average number of persons employed by the group during the year was 219 (2001 - 138).

5. Directors' emoluments

	2002 12 months £000	2001 15 months £000
Emoluments (excluding pension contributions)	165	196

Non-executive directors did not receive any remuneration for their services.

	2002 No.	2001 No.
Members of defined benefit pension scheme	2	3

6. Exceptional items

	2002 12 months £000	2001 15 months £000
Recognised in arriving at operating surplus/(deficit):		
Industrial Tribunal costs	-	56
Property dilapidation provision	49	-
	49	56

There is no tax effect from the exceptional items.

7. Interest paid less received

	2002 12 months £000	2001 15 months £000
Interest paid on bank overdrafts	(9)	(28)
Interest paid on bank loan	(47)	(64)
Interest received	9	1
	(47)	(91)

NOTES TO THE ACCOUNTS
at 31st March 2002

8. Taxation

Tax on profit on ordinary activities
There is no tax charge for the year (2001: £nil). The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the standard rate of corporation tax. Factors affecting the tax charge for the year were:

	2002 12 months £000	2001 15 months £000
Surplus/(deficit) on ordinary activities before tax	**81**	(193)
Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax of 30%	**24**	(58)
Effect of:		
Disallowed expenses and non-taxable income	**14**	25
Accounting (profit) / loss on chargeable assets	**10**	(8)
Capital allowances in advance of depreciation	**(20)**	(9)
Short term timing differences	**(8)**	(8)
Utilisation of losses	**(20)**	57
Current tax charge for the year	**-**	-

Deferred taxation
There is no group liability for deferred taxation. A deferred tax asset of £109,000 (2001 - £178,000) which existed at the year end has not been recognised in the accounts. The amounts provided and not provided are as follows:

	Group 2002 £000	Group 2001 £000	**Company 2002 £000**	Company 2001 £000
Provided:				
Other timing differences	**(42)**	(4)	**(38)**	-
Accelerated capital allowances	**42**	4	**38**	-
	-	-	**-**	-

	Group 2002 £000	Group 2001 £000	**Company 2002 £000**	Company 2001 £000
Not Provided:				
Losses	**75**	130	**63**	104
Accelerated capital allowances	**34**	48	**31**	-
	109	178	**94**	104

NOTES TO THE ACCOUNTS
at 31st March 2002

9. Net cash flow from operating activities

		2002 12 months		2001 15 months
	£000	£000	£000	£000
Operating surplus/(deficit)		163		(128)
Add back:				
Depreciation		142		215
		305		87
Deduct:				
Income from investments		(15)		(21)
		290		66
(Decrease)/increase in deferred subscriptions income	(24)		251	
Increase in provisions	49		-	
(Increase) in stocks	(9)		-	
(Increase) in debtors	(5,007)		(607)	
Increase in creditors	3,382		378	
		(1,609)		22
Net cash (outflow)/inflow from operating activities		(1,319)		88

10. Tangible fixed assets

	Leasehold Property £000	Fixtures & Equipment £000	Total £000
Group:			
Cost			
At 26th March 2001	1,265	1,403	2,668
Additions during the year	80	212	292
At 31st March 2002	1,345	1,615	2,960
Depreciation			
At 26th March 2001	53	1,074	1,127
Charge for the year	18	124	142
At 31st March 2002	71	1,198	1,269
Net book value at 31st March 2002	1,274	417	1,691
Net book value at 26th March 2001	1,212	329	1,541
Company:			
Cost			
At 26th March 2001	1,265	883	2,148
Additions during the year	80	171	251
At 31st March 2002	1,345	1,054	2,399
Depreciation			
At 26th March 2001	53	678	731
Charge for the year	18	77	95
At 31st March 2002	71	755	826
Net book value at 31st March 2002	1,274	299	1,573
Net book value at 26th March 2001	1,212	205	1,417

NOTES TO THE ACCOUNTS
at 31st March 2002

11. Shares in subsidiary undertakings

BCI holds the whole of the issued share capital in the following companies:

- Birmingham C.O.C. Pension Fund Trustee Company Limited being 100 shares of 5p each. The company acts as the trustee of the group's staff pension scheme and was dormant throughout the year.
- Birmingham Chamber Training Limited being 100 shares of £1 each. The company's principal activity is the provision of training services.
- Sandwell Chamber of Commerce and Industry Limited being 100 shares of £1 each. The company was dormant throughout the year.

BCI also holds 80 ordinary shares of £1 each in Central Chambers of Commerce and Industry Limited (a dormant company), being 80% of the issued capital.

Birmingham Chamber Training Limited holds the whole of the issued share capital in Birmingham Venture Enterprise Rehearsal Limited being 2 shares of £1 each. The company was dormant throughout the year.

12. Other investments

	Listed £000	Unlisted £000	Total £000
Group and company			
Cost:			
At 26th March 2001	671	5	676
Purchases during the year	32	-	32
Sales during the year	(109)	-	(109)
At 31st March 2002	**594**	**5**	**599**
Amounts provided:			
At 26th March 2001	24	-	24
Provided during the year	35	-	35
At 31st March 2002	**59**	**-**	**59**
Net book value at 31st March 2002	**535**	**5**	**540**
Net book value at 26th March 2001	647	5	652

The market value of listed investments as at 31st March 2002 was £542,000 (25th March 2001 - £656,000). Fifty per cent of the issued ordinary share capital of the National Exhibition Centre Limited, which is registered in England and Wales, consisting of 5,000 shares of £1 each, is included in unlisted investments. This company acts as the non-profit making managing agent for the National Exhibition Centre and is not consolidated on the grounds of materiality.

13. Debtors

	Group 2002 £000	Group 2001 £000	**Company 2002 £000**	Company 2001 £000
Trade debtors	**3,673**	1,102	**3,406**	696
Other debtors	**2,586**	329	**2,586**	329
Tax recoverable	**4**	4	**4**	4
Prepayments and accrued income	**659**	480	**370**	158
Amounts owed by group undertakings	**-**	-	**53**	148
	6,922	1,915	**6,419**	1,335

Included within prepayments and accrued income for the group is £167,000 (2001 - £114,000) in respect of pension accounting (company - £153,000 (2001 - £100,000)). These amounts fall due after more than one year.

NOTES TO THE ACCOUNTS
at 31st March 2002

14. Analysis of changes in net debt

	1999 £000	Cash flows 15 months £000	2001 £000	Cash flows 12 months £000	**2002 £000**
Cash at bank and in hand	10	35	**45**	78	**123**
Bank overdraft	(110)	(99)	**(209)**	(462)	**(671)**
Bank loan	(713)	78	**(635)**	68	**(567)**
Other loan	-	-	-	(1,250)	**(1,250)**
	(813)	14	**(799)**	(1,566)	**(2,365)**

15. Creditors falling due within one year

	Group 2002 £000	Group 2001 £000	**Company 2002 £000**	Company 2001 £000
Current instalment due on bank loan (note 16)	**74**	68	**74**	68
Payments received in advance	**260**	253	**260**	253
Trade creditors	**3,510**	529	**3,400**	361
Accruals and deferred income	**308**	63	**269**	27
Other creditors	**661**	422	**655**	423
Other taxes and social security costs	**142**	256	**129**	254
Amounts owed to group undertakings	-	-	**11**	11
	4,955	1,591	**4,798**	1,397

16. Loans

	2002 £000	2001 £000
Group and company:		
Not wholly repayable within 5 years:		
Bank loan	**567**	635
Wholly repayable within 5 years:		
Other loan	**1,250**	-
	1,817	635
Less amount falling due within one year	**(74)**	(68)
	1,743	567

An unsecured bank loan of £800,000 was received on 16th June 1998 and is repayable by quarterly repayments of £29,000 at 7.68 % p.a. over 10 years. An unsecured interest free loan of £1,250,000 was received on 24th May 2001 and is repayable on 31st March 2004.

	2002 £000	2001 £000
Group and company:		
Amounts repayable:		
in one year or less	**74**	68
between one and two years	**1,330**	74
between two and five years	**277**	258
	1,681	400
in five years or more	**136**	235
	1,817	635

NOTES TO THE ACCOUNTS
at 31st March 2002

17. Provisions for liabilities and charges

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Deferred subscriptions income	**346**	370	**346**	370
Property dilapidation costs	**49**	-	**-**	-
	395	370	**346**	370

Movement in provisions during the year:	Deferred income £000	Property costs £000
At 26th March 2001	370	-
Released during the year	(24)	-
Provided during the year	-	49
At 31st March 2002	**346**	**49**

18. Movement on reserves

Income and expenditure account:	Company £000	Group £000
At 1st January 2000	912	1,638
Deficit for the year	(82)	(193)
At 25th March 2001	830	1,445
Surplus for the year	178	81
At 31st March 2002	**1,008**	**1,526**

19. Deficit attributable to the parent company

The surplus dealt with in the accounts of the parent company was £178,000 (2001 - deficit £82,000). Advantage has been taken of the exemption from publication of the company's own income and expenditure account.

20. Other financial commitments

At the year end, the annual commitments under non-cancellable operating leases were as follows:

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Land and buildings leases expiring:				
in two to five years	**71**	71	**-**	-
Other leases expiring:				
within one year	**26**	-	**26**	-
in two to five years	**78**	88	**78**	88
	175	159	**104**	88

NOTES TO THE ACCOUNTS
at 31st March 2002

21. Pension commitments

SSAP 24 Disclosures
The group operates both a funded defined benefit pension scheme and a non-contributory defined contribution pension scheme for its employees.

The assets of the defined benefit pension scheme are held separately from those of the group and the pension scheme is administered by the Birmingham C.O.C. Pension Fund Trustee Company Limited. The most recent triennial valuation was undertaken as at 30th June 1999 by the Scheme Actuary using a market valuation approach and the projected unit credit method. The main assumptions made in the valuation were that the investment returns would be 4.5% per annum on existing investments and 6% per annum on new investments, that salary increases would average 4% per annum and that present and future pensions would increase by 2.5% per annum on that part of the pension in excess of the guaranteed minimum pension (on which the State provides full indexation). The most recent actuarial valuation showed that the market value of the scheme's assets was £10,859,000 and that the actuarial value of those assets was sufficient to cover 115% of the benefits that had accrued to members, after allowing for future increases in earnings.

The assets of the defined contribution pension scheme are held separately from those of the group in an independently administered fund. The unpaid contributions outstanding at the year end, included in other creditors (note 15), were £24,000 (2001 – nil).

FRS 17 Disclosures
An actuarial valuation of the liabilities of the defined benefit pension scheme was obtained as at 31st March 2002 and the principal actuarial assumptions used were:

Price inflation	2.50% p.a.
Pension increases	4.00% p.a.
Discount rate	5.75% p.a.
Salary increases	4.00% p.a.

The assets and liabilities of the defined benefit pension scheme as at 31st March 2002 were:

	2002 £000
Equities	6,900
Bonds and cash	2,550
	9,450
Actuarial value of liabilities	(8,400)
Surplus in scheme	1,050
Related deferred tax liability	(315)
	735

The expected long term rate of return over the following years is 8.1% for equities and 5.5% for bonds and cash.

	2002 £000
Profit and loss reserve	1,526
Eliminate SSAP 24 prepayment	(167)
Defined benefit pension scheme surplus (FRS 17)	735
Profit and loss reserve (FRS 17)	2,094

INDEPENDENT AUDITORS' REPORT
to the members of Birmingham Chamber of Commerce and Industry

We have audited the group's financial statements for the year ended 31st March 2002 which comprise the Group Income & Expenditure Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31st March 2002 and of the surplus of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

10th July 2002

CORPORATE GOVERNANCE

The Board is responsible for establishing and maintaining the group's system of internal financial control. Internal control systems are designed to meet the particular needs of the group concerned and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss. The directors have established the following with a view to providing effective internal financial control:

- **The Board**
  The Board has overall responsibility for the group and there is a formal schedule of matters specifically reserved for decision by the Board. The executive directors constitute the management committee, which meets fortnightly to discuss day-to-day operational matters. The Board is responsible for identifying the major business risks faced by the group and for determining the appropriate course of action to manage those risks. The management committee focuses on these areas.

  Each year the Board approves the annual budget and business plan. Key risk areas are identified. Performance is monitored and relevant action taken throughout the year through the reporting to the Board of variances from the budget and updated forecasts for the year together with information on the key risk areas.

  In addition, the Board supports three formal committees as follows:

- **Audit committee**
  The audit committee is chaired by the senior Vice-president and its other members are the junior Vice-president and two non-executive directors with the Chief Executive and Finance Director in attendance. The committee has written terms of reference and reviews the group's annual results, external audit arrangements and any other issues concerning the group's compliance with legal and regulatory requirements related to financial and accounting matters. The audit committee also considers and determines relevant action in respect of any control issues raised by the external auditors.

- **Remuneration committee**
  The remuneration committee is comprised of the President and the audit committee. The committee determines the overall remuneration package for executive directors in order to attract and retain high quality executives capable of achieving the group's objectives.

- **Investments committee**
  The investments committee is chaired by a member of the audit committee and is comprised of the finance director, non-executive directors and external experts. The committee has written terms of reference and reviews the group's investments strategy and performance. The investments are managed with full discretion by Capel Cure Sharp Limited as an independent investment manager.