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KELLOCK TRUST PLC

2/7

1491292

Directors

J L Backwith *Chairman*
M R F Langdon *Deputy Chairman and Chief Executive*
B J Allen
C B Dowling
K J Rawlings
A Cassels
B J M Dally
J K Laurence
P S McDonald

Secretary

M R Douglas FCA

Registered Office

39 King Street, London EC2V 2DQ

Registered Number

1491292 England

Auditors

Peat, Marwick, Mitchell & Co.

Solicitors

Taylor Garrett

Stockbrokers

Phillips & Drew

Registrars

Hill Samuel Registrars Limited



KELLOCK TRUST PLC



Chairman's Report

Following the successful implementation of the proposals sent to shareholders in October 1986, the company has been expanded by the acquisition of a 75 per cent. holding in Burlington Insurance Services Limited and the receipt of £8.5m cash. In addition London & Edinburgh Trust PLC has acquired a 46% holding in your company and Michael Langdon, who was previously a partner with Price Waterhouse, was appointed to the Board and became Deputy Chairman and Chief Executive. Christopher Dowling, previously a Director of Barclays de Zoete Wedd Limited, and Keith Rawlings, Chairman of Burlington Insurance Services Limited, have also joined the Board as Executive Directors.

The financial year to 31 December 1986 saw profits before tax rise by 41 per cent to £1,088,982, which was largely due to the continued success of the existing mainstream business of receivables financing. It is proposed to pay a final dividend for the year of £130,000 (1985 £93,375).

The strategy is to develop as an independent listed company specialising in the following areas.

- * Corporate financial services
- * Insurance and personal financial services
- * Asset back financing
- * Professional services

I am delighted that your previous Chairman, Sandy Cassels, has agreed to remain on the Board as a non-executive director and we are fortunate that we will continue to benefit from his considerable business experience.

I would like to thank all the staff for their valued contribution during 1986, which was a successful year and also one of significant change. The current year has started very well and we are confident that 1987 will be a year of substantial growth.

A handwritten signature in black ink, appearing to read 'John Beckwith'. The signature is stylized with a large loop at the end.

**John Beckwith
(Chairman)**

KELLOCK TRUST PLC

Chief Executive's Report

Our corporate strategy is to broaden Kellock's base as a financial services group, operating in the following sectors:

Corporate Financial Services

With the appointment of Christopher Dowling, we plan to recruit a professional team of high quality executives to provide corporate financial services. Our target clients will be private, independent companies, management teams of larger groups and fully listed public companies. We will be active investors in such companies where we can help to initiate the raising of new equity and the financing of expansion.

Insurance and personal financial services

We plan to build up a regionally based group of top quality insurance brokers who will be entirely independent and objective in assessing the insurance needs of their clients. These specialist operations will market the best general and personal insurance products available and local management will retain a minority equity stake in each of their own operations.

Asset backed financing

In addition to our existing activities, we intend to develop a business in "small ticket" leasing and other forms of asset backed financing for the independent business sector. Entrepreneurs often prefer non-equity financing and we believe there are many opportunities for creative and commercially sensible asset backed financing schemes.



Professional Services

The proposed acquisition of Ellis & Buckle, a leading loss adjuster, gives us access to a professional market which is undergoing considerable change. We propose to expand Ellis & Buckle as an autonomous company within the group and encourage growth through attracting the best professional loss adjusters. The same policy of management retaining a direct equity stake in the business will be applied.

With the major changes taking place in the financial community the opportunity to market constructive and innovative financial services to United Kingdom businesses has seldom been greater. We will grow, not just by acquisition, but also by encouraging the right people and providing incentives for this talent to support our strategy.

A handwritten signature in dark ink, reading "Michael Langdon". The signature is fluid and cursive, with the first name "Michael" and last name "Langdon" clearly visible.

Michael Langdon
(Deputy Chairman/Chief Executive)

KELLOCK TRUST PLC

Report of the directors

The directors present their report and the audited accounts for the year ended 31 December 1986.

Activities of the company and its subsidiaries

The company carries on the business of a holding company and its major subsidiaries are engaged in the following businesses:

- Financing of bank debts and invoice discounting
- General and personal insurance broking services
- Corporate financial services

Review of business and future developments

The consolidated profit and loss account set out on page 8 shows the group results for the year ended 31 December 1986.

On 3 November 1986 the company increased its share capital and raised new funds amounting to £8,540,885 after expenses. On the same date the company acquired a 75 per cent interest in Burlington Insurance Services Limited (Burlington) by the issue of 3,441,176 ordinary shares of 5p (equivalent to 17,205,880 Ordinary shares of 1p). Up to a further 2,000,000 Ordinary Shares of 1p may be allotted to the Burlington directors by way of further consideration dependent upon the level of profits achieved by Burlington in the period from 8 April 1986 to 7 April 1988.

In the period from 8 April 1986 to 31 December 1986 Burlington achieved profits after tax before extraordinary items of £154,691 on a turnover of £885,910.

The financial restructuring formed the first stage of the company's planned development into a more broadly based financial services group.

Dividends

The directors recommend a dividend of 0.1p per ordinary share. The dividend will be paid on 29 May 1987 to shareholders on the register on 28 April 1987.

Substantial holdings

London & Edinburgh Trust PLC has an interest in 46.2 per cent of the issued ordinary share capital of the company.

The company has not received any notification of any other interest or group of interests held by persons acting together which at 10 March 1987 represented 5 per cent or more of the issued ordinary share capital of the company.

KELLOCK TRUST PLC

Report of the directors continued

Directors and directors' interests

The directors during the year and their beneficial interests at 31 December 1986 in the shares of the company according to the register required to be kept by Section 325 of the Companies Act 1985 were as follows:

	Ordinary Shares of 1p	
	31 December 1986	31 December 1985
J L Beckwith (appointed 3 Nov 1986)	1,250,000	—
M R F Langdon (appointed 5 Jan 1987)	2,500,000	—
B J Allen	585,324	385,520
C B Dowling (appointed 5 Jan 1987)	1,100,000	—
K J Rawlings (appointed 3 Nov 1986)	2,081,195	—
A Cassels	110,400	92,000
B J M Dally	90,000	75,000
J K Laurence	280,000	280,000
P S McDonald (appointed 3 Nov 1986)	100,000	—

Mr Eric J P C Lombard Knight resigned on 13 March 1986 and Mr J N Oppenheim and Mr F G Calonder resigned on 3 November 1986

Mr B J Allen has an option to require the group to purchase his holding of 9.9 per cent of the issued ordinary shares in Kellock Limited. The terms of his option are set out in Note 3.2 to the financial statements on page 15

Mr C B Dowling's interest includes an option to acquire 1,000,000 Ordinary shares of 1p each from London and Edinburgh Trust PLC exercisable between 5 July 1988 and 5 January 1990.

Mr B J Allen has a service contract with Kellock Limited which is determinable on 31 December in any year on giving not less than three years notice. Mr K J Rawlings has a service contract with Burlington Insurance Services Ltd which expires on 9 October 1990 and is subject to not less than six months notice thereafter

Other directors proposed for re-election have service contracts of less than one year's duration.

None of the directors has any interest in contracts with the company save as disclosed above.

Fixed assets

Changes in fixed assets are set out in Note 3.1 of the accounts. The significant change in the year was the furnishing of the new premises at 4 Abbey Gardens, Reading, at a cost of £224,563.

Share capital

During the year the company purchased a total of 250,000 (1985: 225,000) of its convertible preference shares for cancellation and the aggregate consideration for these purchases amounted to £178,858 (1985: £70,689). This represented 3.6 per cent of the issued share capital as at 1 January 1986.

KELLOCK TRUST PLC

Report of the directors continued

Following the meeting of shareholders on 3 November 1986 the company increased its issued share capital as follows:

	Ordinary shares of 5p	Preference shares of 5p
Purchase of 75 per cent. interest in Burlington from London & Edinburgh Trust PLC and other shareholders at an agreed price of 85p per share	3,441,176	—
Cash subscription from London & Edinburgh Trust PLC and other investors at an agreed price of 85p per share	710,788	7,330,506

On 18 November 1986 the variable rate convertible preference shares of 5p each were redesignated as ordinary shares of 5p each and all shares were subdivided into ordinary shares of 1p each. Following the redesignation and subdivision of shares, shareholders on the register were offered one new ordinary share of 1p by way of rights for every one share of 5p held on 30 September 1986 at 17p per new ordinary share, effectively the same price that London & Edinburgh Trust PLC and the other investors subscribed for new shares.

On 1 July 1986 pursuant to a court order the company cancelled 1,640,000 variable rate convertible preference shares of 5p each held by its subsidiary Hivagate Limited. Details are given in note 3.2 to the accounts.

Group minority

The Bank of Scotland owns 40 per cent of Kelscot Limited, Mr B J Allen owns 9.9 per cent of Kellock Limited and directors of Burlington own 25 per cent of Burlington Insurance Services Limited.

Taxation

The company does not fall within the close company provisions of the Income and Corporation Taxes Act 1970

Auditors

At the company's last Annual General Meeting, Peat, Marwick, Mitchell & Co were reappointed as auditors of the company and from 1 April 1987 they will practice under the name of Peat Marwick McLintock. A resolution concerning their reappointment as auditors will be proposed at the forthcoming Annual General Meeting

By Order of the Board

M R Douglas
Secretary



KELLOCK TRUST PLC

Report of the auditors to the members of Kellock Trust PLC

We have audited the accounts on pages 8 to 21 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out in note 1 on page 11 give a true and fair view of the state of affairs of the company and of the group at 31 December 1986, and of the profit and source and application of funds of the group for the year to that date and comply with the Companies Act 1985.

Peat, Marwick, Mitchell & Co.
Peat, Marwick, Mitchell & Co.
Chartered Accountants
London

10 March 1987

KELLOCK TRUST PLC

Consolidated profit and loss account for the year ended 31 December 1986

	Note	1986 £	1985 £
Turnover	2.1	5,865,746	4,591,207
Staff Costs	2.2	1,181,482	1,053,866
Depreciation		199,110	162,644
Other operating charges		1,442,101	1,159,061
		<u>2,822,693</u>	<u>2,361,571</u>
Operating profit		3,043,053	2,229,636
Income from investments	2.3	—	49,283
Interest receivable	2.4	127,355	—
Interest payable	2.5	(2,081,426)	(1,507,368)
		<u>(1,954,071)</u>	<u>(1,458,085)</u>
Profit on ordinary activities before taxation	2.6	1,088,982	771,551
Tax on profit on ordinary activities	2.8	367,457	261,872
Profit on ordinary activities after taxation		721,525	509,679
Minority interests		342,830	245,196
Profit before extraordinary items		378,695	264,483
Extraordinary items	2.9	71,222	29,868
Profit for the financial year	2.10	307,473	234,615
Retained profit brought forward		137,178	66,627
		<u>444,651</u>	<u>301,242</u>
Transfer to capital redemption reserve	3.13	22,500	11,250
Purchase of own shares	2.11	156,358	59,439
Dividends	2.12	130,000	93,375
Retained profit carried forward		<u>135,793</u>	<u>137,178</u>
Earnings per 1p ordinary share	2.13	0.53p	0.42p

The notes on pages 11 to 21 form part of these accounts

KELLOCK TRUST PLC

Balance sheets at 31 December 1986

1985	Company 1986		Note	Group 1986	1985
£	£			£	£
16,588	10,325	Fixed Assets			
3,563,664	6,419,741	Tangible Assets	3.1	1,045,203	559,408
		Investments	3.2	1,360	31,760
3,580,252	6,430,066			1,046,563	591,168
		Current Assets			
293,397	239,251	Debtors	3.4	49,764,297	33,843,224
—	8,481,366	Cash at bank and in hand	3.5	10,274,204	—
293,397	8,720,617			60,038,501	33,843,224
1,537,297	1,401,024	Creditors: amounts falling due within one year	3.6	49,508,405	31,801,701
(1,243,900)	7,319,593	Net current assets/(liabilities)		10,530,096	2,041,523
2,336,352	13,749,659	Total assets less current liabilities		11,576,659	2,632,691
572,600	572,600	Creditors: amounts falling due after more than one year	3.7	697,600	572,600
1,763,752	13,177,059			10,879,059	2,060,091
(40,018)	(53,099)	Provisions for liabilities and charges	3.8	173,234	174,173
1,803,770	13,230,158			10,705,825	1,885,918
		Capital and reserves			
704,500	1,300,572	Called up share capital	3.9	1,300,572	622,500
—	10,819,492	Share premium account	3.10	10,819,492	—
—	—	Goodwill	3.11	(2,793,407)	—
908,280	908,280	Revaluation reserve	3.12	—	7,315
85,500	108,000	Capital redemption reserve	3.13	108,000	85,500
105,490	93,814	Profit and loss account		135,793	137,178
1,803,770	13,230,158			9,570,450	852,493
—	—	Minority Interest	3.14	1,135,375	1,033,425
1,803,770	13,230,158			10,705,825	1,885,918

These accounts were approved by the Board of Directors on 10 March 1987

[Signature]
Richard H. Langdon

J. L. Beckwith (Chairman)
M. R. F. Langdon (Deputy Chairman/Chief Executive)



The notes on pages 21 to 24 form part of these accounts

KELLOCK TRUST PLC

Consolidated statement of source and application of funds for the year ended 31 December 1986

£	1985 £	Source of funds	£	1986 £
		Group profit on ordinary activities before taxation less minority interests		746,152
	526,355	Adjustments for items not involving the movement of funds:		
162,644		Depreciation	199,110	
245,196		Minority interests	417,033	
(6,056)		Profit on disposal of tangible fixed assets	(1,799)	
(45,972)		Profit on sale of investments	(19,815)	
	<u>355,812</u>			<u>594,529</u>
	£ 37			1,340,681
		Funds from other sources		
572,600		Issue of loan notes	—	
—		Issue of share capital to shareholders	11,520,064	
400,000		Issue of share capital to minority	—	
22,234		Proceeds of disposal of tangible fixed assets	37,465	
780,767		Proceeds of disposal of investments	42,900	
—		Creditors falling due in more than one year	125,000	
—		Provisions for liabilities and charges	50,000	
	<u>1,775,601</u>			<u>11,775,429</u>
	2,657,768			13,116,110
		Application of funds		
260,593		Tax paid	331,500	
316,194		Purchase of fixed assets	720,571	
70,689		Purchase of own shares	178,858	
76,050		Dividends paid	93,375	
23,325		Purchase of investments	—	
—		Purchase of goodwill in subsidiary	2,793,407	
241,322		Dividend and loan stock interest payable to minority	271,150	
33,868		Extraordinary item	180,534	
	<u>1,022,041</u>			<u>4,569,495</u>
	1,635,727			<u>8,546,615</u>
		Increase/(decrease) in working capital		
	7,868,921	Debtors		15,921,073
	(4,344,104)	Creditors falling due within one year		(8,221,902)
(5,187)		Movement in net liquid funds:		
(1,883,903)		Cash at bank and in hand	10,274,204	
	<u>(1,889,090)</u>	Bank loans and overdrafts	(9,426,760)	
	1,635,727			<u>847,444</u>
				<u>8,546,615</u>

A summary of the effects of the acquisition of Burlington Insurance Services Limited is given in Note 3.3

The notes on pages 11 to 21 form part of these accounts

KELLOCK TRUST PLC

Notes on the accounts

1 Accounting policies

- 1.1 Convention:** The accounts have been prepared under the historical cost convention subject to the revaluation of investments.
- 1.2 Turnover:** The invoiced amounts of services provided during the year are stated net of value added tax.
- 1.3 Basis of consolidation:** The consolidated accounts comprise the audited accounts of the company and its subsidiaries which are made up for the year to 31 December 1986.
- 1.4 Goodwill:** Goodwill arising on consolidation is written off against reserves. To comply with this policy the company intends to apply to the Court for consent to redesignate the share premium account as a capital reserve against which goodwill arising on consolidation will be written off.
- 1.5 Depreciation:** All fixed assets are written off on a straight line basis over their estimated useful lives over the following periods:
- | | |
|------------------------|-----------------|
| Freehold buildings | 50 years |
| Motor vehicles | 4 years |
| Other fixed assets | 5-10 years |
| Leasehold improvements | Length of lease |
- 1.6 Deferred taxation:** Provision is made for deferred taxation to take account of timing differences between the treatment of certain items for the purposes of the financial statements and their treatment for tax purposes. The provision is maintained to the extent that timing differences are not expected with reasonable probability to continue into the foreseeable future.
- 1.7 Leases:** Income from leasing assets is credited to profit and loss account in proportion to the funds invested. The amounts due from lessees under finance leases are classified as a debtor at the amount of the net investment in those leases.

KELLOCK TRUST PLC

Notes on the accounts (continued)

2 Consolidated profit and loss account

2.1 Turnover: The turnover on ordinary activities all of which arose in the United Kingdom, can be analysed as follows:

	1986	1985
	£	£
Factoring/asset financing	5,710,255	4,591,207
Insurance Services	155,491	—
	<u>5,865,746</u>	<u>4,591,207</u>

The aggregate finance lease rentals were £35,649 (1985: £133,279)

Profit on ordinary activities before taxation

	1986	1985
	£	£
Factoring/asset financing	1,218,850	1,079,043
Insurance Services	12,021	—
Net central costs	(113,889)	(307,482)
	<u>1,116,982</u>	<u>771,561</u>

2.2 Staff costs:

	1986	1985
	£	£
Wages and salaries	975,078	863,967
Social security costs	93,853	70,251
Other pension costs	109,751	109,648
	<u>1,178,682</u>	<u>1,043,866</u>

The average weekly number of persons employed by the group during the year was

	1986	1985
Office and management	60	50
Sales and marketing	14	13

2.3 Income from investments:

	1986	1985
	£	£
Income from listed investments	—	43,283

2.4 Interest receivable:

	1986	1985
	£	£
Bank deposit interest	127,855	—

2.5 Interest payable:

	1986	1985
	£	£
Bank overdrafts	634,589	322,946
Other loans payable within one year	892,261	679,311
Discount and commission on acceptance credits	524,526	492,481
	<u>2,051,376</u>	<u>1,504,738</u>

2.6 Profit on ordinary activities before taxation:

For profit on ordinary activities before taxation as arrived at after charging

	1986	1985
	£	£
Remuneration of directors	20,000	10,000
Remuneration of directors (including pension costs) (continued)	(31,279)	(12,279)

KELLOCK TRUST PLC

Notes on the accounts continued

2.7 Directors Remuneration:	£	£
Chairman Mr A Cassels for the period 1 January 1986 to 3 November 1986	6,949	4,019
Chairman Mr J L Beckwith did not receive any emoluments for the period from 4 November 1986 to 31 December 1986.		
Highest paid director	69,306	47,026
The number of other directors in each range of emoluments is set out in the following table:		
£	1986	1985
0— 5,000	4	3
5,001—10,000	3	2
30,001—35,000	1	—
35,001—40,000	—	1
40,001—45,000	—	—
45,001—50,000	1	—
2.8 Tax on profit on ordinary activities:	1986	1985
The charge for taxation which is based on the results for the year is made up as follows:	£	£
UK Corporation tax at 36.25 per cent (1985: 41.25 per cent) on taxable profits for the year	414,223	295,714
Deferred taxation	(46,766)	(33,842)
	<u>367,457</u>	<u>261,872</u>
2.9 Extraordinary items:	1986	1985
Reorganisation and redundancy costs (including £37,500 compensation to a former Director)	£ 180,634	£ —
Less tax	(65,410)	—
Costs of issue of share capital and loan stock	—	33,868
Minority share	(43,931)	(4,000)
	<u>71,222</u>	<u>29,868</u>
2.10 Profit for the financial year: No profit and loss account is presented for Kellock Trust PLC as provided by Section 228(7) of the Companies Act 1985. The group profit attributable to shareholders includes profit after tax of: £297,183 (1985: £245,949) of Kellock Trust PLC.		
2.11 Purchases of own shares: During the year the company purchased a total of 450,000 of its variable rate convertible preference shares of 5p each for cancellation at a total cost of £178,858. The total nominal value of the shares cancelled of £22,500 was accordingly transferred to the capital redemption reserve fund and the balance of £156,358 of the purchase price is shown as a distribution out of profits for the year. These purchases occurred prior to the changes in share capital more fully set out in note 3.9.		
2.12 Dividends:	1986	1985
Convertible preference 5p—proposed	£ —	£ 75,600
Ordinary 5p—proposed	—	17,777
Ordinary 1p—proposed	150,000	—
	<u>150,000</u>	<u>93,377</u>

KELLOCK TRUST PLC

Notes on the accounts continued

- 2.13 Earnings per share:** The Preference shares of 5p each have been redesignated as Ordinary shares and all such shares have subsequently been subdivided into Ordinary shares of 1p each. The calculation has been performed to reflect this and earnings per share for 1985 have been restated accordingly. The figure for earnings per share of 0.53 pence (1985: 0.42 pence) is calculated on the profit of the group after taxation (after deducting minority interests and before extraordinary items) of £378,695 (1985: £264,483) on a weighted average of 71,059,954 shares of 1p each (1985: 63,355,000).

3 Balance sheet

3.1 Tangible fixed assets:

Group	Freehold Property	Other	Total
Cost:	£	£	£
At 1 January 1986	—	212,717	880,418
Subsidiary acquired	176,249	179,915	185,051
Additions	—	80,077	224,563
Disposals	—	(71,374)	—
At 31 December 1986	176,249	401,937	1,090,632
At 31 December 1985	—	—	—
Depreciation:			
At 1 January 1986	—	81,853	251,874
Subsidiary acquired	4,342	55,076	67,002
Provided for the year	568	62,810	135,761
Disposals	—	(35,708)	—
At 31 December 1986	4,910	164,031	454,785
At 31 December 1985	—	—	—
Net book value at 31 December 1986	171,339	237,906	1,045,847
Net book value at 31 December 1985	—	130,864	159,408
Company			
Cost:			
At 1 January 1986	—	26,559	—
Additions	—	14,387	—
Disposals	—	(14,232)	—
At 31 December 1986	—	26,714	—
At 31 December 1985	—	—	—
Depreciation:			
At 1 January 1986	—	9,071	—
Provided during the year	—	8,751	—
Disposals	—	(2,333)	—
At 31 December 1986	—	15,389	—
At 31 December 1985	—	—	—
Net book value at 31 December 1986	—	11,325	—
Net book value at 31 December 1985	—	—	—

Other fixed assets comprise computer equipment, office equipment and fixtures and have been valued at cost less depreciation.

KELLOCK TRUST PLC

Notes on the accounts continued

3.2 Investments:	1986	1985
Group	£	£
Unlisted—at directors' valuation		
Cost less amounts written off at 1 January	31,760	62,360
Additions during the year	—	23,325
Disposals during the year	(30,400)	(54,425)
	<hr/>	<hr/>
Net book value at 31 December	1,360	31,760
	<hr/>	<hr/>
Company	£	£
Investment in subsidiaries		
Cost less amounts written off at 1 January	2,902,149	2,327,149
Additions during the year	2,925,000	600,000
Disposals during the year	(172,325)	(25,000)
	<hr/>	<hr/>
	5,654,824	2,902,149
	<hr/>	<hr/>
Surplus arising on revaluation	908,280	908,280
Provisions against diminution in realisable value	(148,363)	(246,765)
	<hr/>	<hr/>
Net book value at 31 December	6,419,741	3,563,664
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On 1 July 1986 pursuant to a Court order the company cancelled 1,640,000 variable rate convertible preference shares of 5p each held by its subsidiary Hivgate Ltd. In part consideration the company cancelled the loan stock of £172,325 held in that company.

On 3 November 1986 the company purchased a 75 per cent. holding in Burlington Insurance Services Limited, the consideration for which was 3,441,176 Ordinary shares of 5p each credited as fully paid.

The company's principal subsidiaries are

	Activities	Class of shares held	Percentage of Holdings	Indirect
			Direct	
Kellock Limited	Investment	Ordinary	100.0	—
Kellock Limited	Receivables	Ordinary	—	54.1
	Financing	Non-cumulative Preference	—	60.0
Kellock Leasing Limited	Leasing	Ordinary	—	60.0
Kellock Holdings Limited	Investment	Ordinary	100.0	—
		Cumulative Preference	100.0	—
Hivgate Ltd	Investment	Ordinary	100.0	—
Burlington Insurance Services Limited	Insurance Broking	Ordinary	75.0	—
USMIA Limited	Insurance Broking	Ordinary	—	75.0

The country of incorporation and principal country of operations of all the above subsidiary companies is England

Mr B J Allen, a director, has an option which expires on 1 January 1994, to require the group to purchase his shareholding of 9,999 ordinary shares in Kellock Limited, being 0.9 per cent of that company's issued ordinary share capital. If this option were exercised the purchase price per share would be eight times the average of the preceding three years' pre-tax, adjusted, attributable earnings per ordinary share of Kellock Limited after deduction of all preference dividends. The option is exercisable during a limited period following the publication of each year's annual accounts of Kellock Limited.

KELLOCK TRUST PLC

Notes on the accounts continued

3.3 Summary of the effects of the acquisition of Burlington Insurance Services Limited:

Net assets acquired	£
Intangible fixed assets	91,851
Tangible fixed assets	415,329
	<hr/>
	507,180
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Debtors	1,118,450
Cash at Bank and in hand	876,319
	<hr/>
	1,994,769
	2,030,116
	<hr/>
Creditors: amounts falling due within one year	(35,347)
	<hr/>
Net current liabilities	471,813
	<hr/>
Total assets less current liabilities	125,000
Creditors: amounts falling due after more than one year	50,000
Provisions for liabilities and charges	<hr/>
	296,813
	<hr/>
Share capital	100,000
Premium	184,276
Reserves	12,527
	<hr/>
	296,813
	<hr/>
Group share of tangible net assets acquired	131,593
Goodwill	2,793,407
	<hr/>
Consideration	2,925,000

	Company 1986	1985	Group 1986	1985
	£	£	£	£
3.4 Debtors:				
Trade debtors	127,427	290,471	49,123,124	33,602,141
Amounts owing by group companies	111,824	2,926	641,173	341,083
Prepayments and accrued income	<hr/>	<hr/>	<hr/>	<hr/>
	239,251	2,933	49,764,297	33,943,224

Trade debtors of the group include £254,971 (1985: £260,979) falling due after more than one year of which £65,761 is covered by ACT arising in Burlington Insurance Services Limited.

3.5 Cash at bank and in hand: Included in the total for 1986 is £1,226,233 on various short term deposits (1985: nil)

KELLOCK TRUST PLC

Notes on the accounts continued

3.6 Creditors:	Company 1986	1985	Group 1986	1985
	£	£	£	£
Amounts falling due within one year:				
Trade creditors	—	—	25,136,005	17,339,027
Amounts owing to group companies	1,089,579	1,061,952	—	—
Bank loans and overdrafts	—	261,160	22,893,580	13,466,820
Corporation tax	53,099	51,989	521,775	272,908
Other taxes and social security costs	—	578	97,170	146,107
Accruals and deferred income	128,346	68,243	729,875	483,404
Proposed dividends	130,000	93,375	130,000	93,375
	<u>1,401,024</u>	<u>1,537,297</u>	<u>49,508,405</u>	<u>31,801,701</u>

At 31 December 1986 the following subsidiaries had secured overdrafts:

Kellock Leasing Limited £25,951 by a floating charge over the assets of that company.

Burlington Insurance Services Limited £78,637 by a charge on the freehold property of that company.

At 31 December 1986 Kelscot Limited, a subsidiary company, had secured its bank loan of £2.5 million by charges over its holdings of 91,001 ordinary shares, 2,899,000 non-cumulative preference shares and £2 million subordinated loan stock in Kellock Limited.

3.7 Creditors falling due after more than one year:	Company 1986	1985	Group 1986	1985
	£	£	£	£
Floating rate notes	572,600	572,600	572,600	572,600
Long-term loan	—	—	125,000	—
	<u>572,600</u>	<u>572,600</u>	<u>697,600</u>	<u>572,600</u>

The floating rate notes are unsecured and fall due for repayment at par on 31 March 1988. The company may at any time repurchase the notes in the market at an average price of the previous ten days. The company may also redeem the notes at par at any time after 1 April 1987 by giving three months notice thereof. Interest is payable at two per cent above the London interbank six month deposit rate.

The long term loan of £125,000 bears interest at 1.5 per cent over base rate and repayment is due on 13 March 1991. The loan is secured on the freehold property of Burlington Insurance Services Limited, a subsidiary company.

KELLOCK TRUST PLC

Notes on the accounts continued

3.8 Provisions for liabilities and charges:

	Company 1986 £	1985 £	Group 1986 £	1985 £
Provision for additional staff earnings per Burlington acquisition agreement	—	—	50,000	—
Deferred tax:				
Accelerated capital allowances	—	—	177,543	224,309
Advance corporation tax	(53,099)	(40,018)	(54,819)	(50,136)
	(53,099)	(40,018)	123,234	174,173
Total	—	(40,018)	173,234	174,173

Movements on the provision for deferred tax:

	Company £	Group £
At 1 January 1986	(40,018)	174,173
Release in the year to profit and loss account	—	(46,766)
Movement in advance corporation tax recoverable	(13,081)	(4,173)
At December 1986	(53,099)	123,234

The amounts provided for deferred taxation are the full potential liability calculated on the liability method.

KELLOCK TRUST PLC

Notes on the accounts continued

3.9 Share capital:	1986	1985
Authorised:	£	£
17,600,000 ordinary shares of 5p each	—	880,000
15,200,000 variable rate convertible preference shares of 5p each	—	760,000
175,800,000 ordinary shares of 1p each	1,758,000	—
	<u>1,758,000</u>	<u>1,640,000</u>
 Movement in authorised share capital:	£	
At 1 January 1986	1,640,000	
Cancellation of 1,640,000 convertible preference shares of 5p each held by Hivagate Ltd, a subsidiary company	(82,000)	
Special resolution to increase share capital by creation of an additional 4,000,000 convertible preference shares of 5p each	200,000	
175,800,000 ordinary shares of 1p each following conversion on 3 Nov 1986 of all convertible preference shares of 5p each to ordinary shares of 5p each and subdivision of all shares to ordinary shares of 1p each.	<u>58,000</u>	
At 31 December 1986		
Issued and fully paid:	1986	1985
	£	£
2,370,000 ordinary shares of 5p each	—	118,500
11,720,000 variable rate convertible preference shares of 5p each	—	586,000
Less: 1,640,000 variable rate convertible preference shares of 5p each held by a subsidiary company, Hivagate Limited	—	(82,000)
130,057,275 ordinary shares of 1p each	1,300,572	—
	<u>1,300,572</u>	<u>622,500</u>
	Ord shares of 5p each	Variable rate conv pref shares of 5p each
	£	£
Movement on issued share capital:		
At 1 January 1986	118,500	586,000
Cancellation of 1,640,000 shares held by Hivagate Limited a subsidiary company	—	(82,000)
Purchase of 450,000 shares for cancellation	—	(22,500)
Issue of 710,763 ordinary shares and 7,330,506 preference shares to London & Edinburgh Trust PLC and others	35,538	366,525
Issue of 3,441,176 shares to acquire 75 per cent of Burlington Insurance Services Limited	172,000	—
Redesignation of shares	(326,097)	(344,025)
Rights issue of 12,000,000 ordinary shares of 1p each to share holders on the register at 30 September 1986 (at 1/2p per share)	—	120,000
Exercise of Options over 640,000 shares at 8.40p per share	—	6,480
At 31 December 1986	<u>1,300,572</u>	<u>622,500</u>

KELLOCK TRUST PLC

Notes on the accounts continued

During the year the company implemented an executive share option scheme and options have been granted at a price of 8 4 pence per share over a total of 1,662,500 ordinary shares of 1p each (formerly 332,500 variable rate convertible preference shares of 5p each) to 31 December 1986. Under the rules of the scheme which have gained approval under paragraph 1 section 10 of the Finance Act 1984 and were approved by the shareholders at an Extraordinary General Meeting on 13 March 1986, participants may exercise options within six months of the date of an offer for the whole of the issued share capital of the company. Options on 645,000 shares had been so exercised up to 31 December 1986

3.10 Share premium account:	1986 £
Issue of 710,763 ordinary shares of 5p each and 7,330,506 preference shares of 5p each to London and Edinburgh Trust PLC and others	1,000,000
Issue of 3,441,176 ordinary shares of 5p each to shareholders of Burlington Insurance Services Limited	2,752,941
Rights issue of 12,000,000 ordinary shares of 1p each to shareholders	1,920,000
Exercise of options to purchase 645,500 shares of 1p each at 8.4p per share	47,730
Less: Costs of issue	(334,194)
	<u>£ 10,819,492</u>

- 3.11 Goodwill:**
Goodwill arises on the consolidation of Burlington Insurance Services Limited. The company intends to apply to the Court for consent to redesignate the share premium account as a capital reserve against which the goodwill will be written off

3.12 Revaluation reserve:	Company £	Group £
At 1 January 1986	£ 908,280	£ 7,315
Release on sale of investments	—	(7,315)
At 31 December 1986	<u>908,280</u>	<u>—</u>

- 3.13 Capital redemption reserve:**
The capital redemption reserve, which at 31 December 1986 was £108,000 (1985: £85,500) represents the nominal value of the company's own shares purchased for cancellation as outlined in note 3.9

- 3.14 Minority interests:**
Bank of Scotland, through its wholly owned subsidiary Ulster Investments Limited, owns 40 per cent of Kellock Limited. Mr B.J. Allen owns 9.9 per cent of Kellock Limited

KELLOCK TRUST PLC

Notes on the accounts continued

3.15 Capital commitments: Group:

Contracted but not provided for

1986
£
12,000

1985
£
—

3.16 Contingent liabilities:

Company:

At 31 December 1986 there was a contingent liability relating to a guarantee given to the landlords of premises used by Kellock Limited covering rental payments and other outgoings currently amounting to approximately £60,000 per annum (1985: £60,000).

Group:

At 31 December 1986 there were no contingent liabilities (1985: ENIL).

KELLOCK TRUST PLC

Notice of Annual General Meeting

Notice is hereby given that the seventh Annual General Meeting of the company will be held at The Hyde Park Hotel, Knightsbridge, London on Tuesday, 5 May 1987 at 12 noon for the following purposes:

- 1 To receive and adopt the accounts for the year ended 31 December 1986 and the reports of the directors and auditors thereon.
- 2 To re-elect the following directors: J L Beckwith
M R F Langdon
C B Dowling
K J Rawlings
P S McDonald

To re-elect as a director Mr B J Allen, who retires by rotation and being eligible, offers himself for re-election.

- 3 To re-appoint Peat Marwick McLintock as auditors and to authorise the directors to fix their remuneration.
- 4 To fix the directors' fees.
- 5 To declare a dividend on the ordinary shares.

By Order of the Board

M R Douglas
Secretary

8 April 1987

Notes

- 1 A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and such proxies need not be members. The instrument appointing a proxy must be deposited with the company's registrars not less than 48 hours before the time for holding the meeting.
- 2 The register of directors' interests, kept by the company in accordance with section 329 of the Companies Act 1985, will be open for inspection at the Annual General Meeting.
- 3 Copies of the service contracts of the directors with the company and/or its subsidiaries not expiring or determinable within one year will be available for inspection at 180 Fleet Street, London EC4A 2NT from 8 April to 5 May 1987 and at the Annual General Meeting for at least 15 minutes prior to and during the meeting.

KELLOCK TRUST PLC

Form of Proxy — Annual General Meeting

I/We the undersigned being (a) member(s) of Kellock Trust PLC hereby appoint the Chairman of the meeting or

of _____
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the company to be held on 5 May 1987 and at any adjournment thereof.

	For	Against
1. To receive and adopt the accounts for the year ended 31 December 1986 and the reports of the directors and auditors thereon.		
2.1 To re-elect the following director—J L Beckwith		
2.2 To re-elect the following director—M R F Langdon		
2.3 To re-elect the following director—C B Dowling		
2.4 To re-elect the following director—K J Rawlings		
2.5 To re-elect the following director—P S McDonald		
2.6 To re-elect the following director—B J Allen		
3. To re-appoint Peat Marwick McLintock as auditors and to authorise the directors to fix their remuneration		
4. To fix the directors' fees		
5. To declare a dividend on the ordinary shares		

Please indicate how you wish your proxy to vote with a tick in the appropriate box opposite the resolution. If no indication is given your proxy will be deemed to have the authority to vote or abstain at his discretion.

Dated _____ 1987 Signed _____

Name and address _____
(in block capitals)

Notes

- 1 To be valid this form of proxy should be deposited at the office of the company's registrars: Hill Samuel Registrars Limited, 6 Greencoat Place, London SW1P 1YU not less than 48 hours before the time of the meeting.
- 2 In the case of a corporation this form should be completed under its common seal or under the hand of an officer or attorney duly appointed.
- 3 In the case of joint holders the signature of any one of them will suffice, but the names of all holders must be shown.
- 4 If you desire to appoint a proxy other than the chairman of the meeting insert his/her name and address and delete the chairman of the meeting.

Shares held

