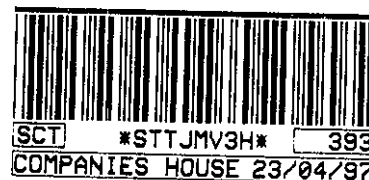


UBERIOR INVESTMENTS PLC

REPORT AND ACCOUNTS

28th February, 1997

COMPANY NUMBER 73998



REPORT OF THE DIRECTORSDirectors

P. A. Burt (Chairman)
 Sir Bruce Pattullo
 J. R. Browning
 J. S. Hunter

The Directors submit their report and statement of accounts of the Company for the year ended 28th February, 1997.

Activities

The Company operates as an investment holding company and there has been no change in that activity during the year.

Results and review of operations

The Company made a profit before tax of £1,274,111 for the year (1996 - £7,607,634).

After taxation, the profit for the year amounted to £627,879 (1996 - £4,964,326). The Directors recommend payment of a dividend for the year of £6,560,000.

In the year under review the Company acquired a 100% interest in Mercat Leasing Ltd, BOS (Shared Appreciation Mortgages) No.1 PLC and BOS (Shared Appreciation Mortgages) No.2 PLC. The Company continued to expand its investment portfolio mainly in unlisted companies including Principle Healthcare Finance Ltd, Tulloch Ltd, Rosyth 2000 Ltd and Advance Payroll Services Ltd. In addition, the Company continued to support the operations of FIM Spa. Additional capital provided to that company was written off in the year and a provision of £3.0 million made in anticipation of future support.

The Directors consider the Company's position at the end of the year to be satisfactory.

Directors and their interests

The Directors at the date of this report are stated above. In addition, Mr H. K. Young served as a Director until his resignation on 15th March, 1996. Mr J. S. Hunter was appointed a Director on 15th March, 1996. All other Directors served throughout the year.

No Director had an interest in the shares of the Company, nor in the preference stocks of The Governor and Company of the Bank of Scotland ("Bank of Scotland"), the Company's holding company, nor in the shares of any other undertakings within the Bank of Scotland group, at any time during the year.

Directors' beneficial interests in the ordinary stock units of Bank of Scotland, were as follows:-

	<u>At 29th February, 1996</u> <u>or at date of appointment</u>	<u>At 28th February, 1997</u>
	<u>Ordinary Stock Units of 25p each</u>	<u>Ordinary Stock Units of 25p each</u>
P. A. Burt	146,229	439,683
Sir Bruce Pattullo	224,851	404,045
J. R. Browning	48,945	171,943
J. S. Hunter	119,990	136,330

Directors and their interests (cont.)

Options to subscribe for Ordinary Stock of Bank of Scotland were granted to or exercised by Directors during the year to 28th February, 1997 as follows:-

Executive Stock Options held by Directors

	# Options held as at 1st March 1996	# Options granted	# Options exercised	# Options held as at 28th February 1997	Weighted average exercise price	Market price at date of exercise	Potential pre-tax gain at date of exercise	Closing weighted average exercise price
					(p)	(p)	£'000	(p)
P. A. Burt	643,145	90,000	391,145	342,000	97.18	275.50	697.5	229.35
Sir Bruce Pattullo	900,301	-	331,801	568,500	82.34	275.50	640.9	173.10
J. R. Browning	388,546	50,000	220,546	218,000	102.32	266.50	362.1	227.32
J. S. Hunter	72,000	20,000	-	92,000	-	-	-	208.69

Ordinary Stock units of 25p each

Bank of Scotland policy is to make an annual grant of options over the ten year life of the Executive Stock Option Scheme.

Options granted prior to October 1995 were granted at an exercise price of the average market price for the three dealing days immediately prior to the date on which invitations to apply for options were issued.

Options granted in October 1995 and subsequently were granted at an exercise price of the average market price for the first three dealing days on which the Ordinary Stock is quoted ex dividend following announcement of the interim results and immediately prior to the date of grant. Such options are subject to a performance pre-condition and may be exercised only where growth in earnings per Ordinary Stock unit has exceeded the growth in the General Index of Retail Prices over a period of not less than three consecutive financial years by not less than 2 per cent per annum.

Options were granted in October 1996 at an exercise price of 273.67p per Ordinary Stock unit.

Outstanding options are exercisable between 1997 and 2006. No options lapsed during the year.

Savings Related Stock Options held by Directors

	# Options held as at 1st March 1996	# Options granted	# Options exercised	# Options held as at 28th February 1997	Weighted average exercise price	Market price at date of exercise	Potential pre-tax gain at date of exercise	Closing weighted average exercise price
					(p)	(p)	£'000	(p)
J. S. Hunter	12,585	1,395	2,196	11,784	76.62	238.50	3.6	154.94

Ordinary Stock units of 25p each

Directors and their interests (cont.)

Options granted prior to 1995 were at a 20% discount to the market price on the fourth dealing day after the announcement of the interim results.

Options granted in November 1995 and subsequently are at an exercise price of 80% of the average market price for the first three dealing days on which the Ordinary Stock was quoted ex dividend following announcement of the interim results and immediately prior to the date of grant. Options were granted in November 1996 at an exercise price of 218.93p per Ordinary Stock unit.

Outstanding options are exercisable between 1997 and 2004. No options lapsed during the year.

The market price of the Ordinary Stock at 28th February, 1997 was 341.0p per Ordinary Stock unit and the range during the year was 227.5p to 373.5p.

Auditors

The Company's Auditors, Ernst and Young, Chartered Accountants have signified their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board,



L.J.W. Black
Secretary.

8th April, 1997

Registered Office

The Mound,
Edinburgh,
EH1 1YZ.

PROFIT AND LOSS ACCOUNTFor the year ended 28th February, 1997

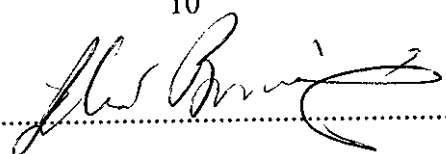
	<u>Notes</u>	<u>1997</u> <u>£</u>	<u>1996</u> <u>£</u>
Income from investments in subsidiary undertaking		5,017,742	10,041,973
Income from other fixed asset investments	2	1,646,040	856,178
Other operating income	3	909,954	24,251
Interest payable	4	-	(1,272)
Other operating expenses	5	(3,299,625)	(3,313,496)
Provision		(3,000,000)	-
Profit on ordinary activities before taxation		<u>1,274,111</u>	<u>7,607,634</u>
Taxation	6	(646,232)	(2,643,308)
Profit on ordinary activities after taxation		<u>627,879</u>	<u>4,964,326</u>
Dividend proposed on equity shares		6,560,000	10,693,398
Deficit for year		<u>(5,932,121)</u>	<u>(5,729,072)</u>
Profit and loss account at 1st March, 1996		11,324,088	17,053,160
Profit and loss account at 28th February, 1997		<u><u>5,391,967</u></u>	<u><u>11,324,088</u></u>

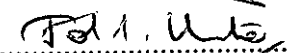
All gains and losses arising during the year have been recognised in the profit and loss account and derive from continuing operations of the Company.

The notes on pages 6 to 10 form part of these accounts

BALANCE SHEETAs at 28th February, 1997

	<u>Notes</u>	<u>1997</u> £	<u>1996</u> £
<u>Fixed Assets</u>			
Investments in subsidiary undertakings	7	2,895,100	1,695,000
Listed investments	8	5,496,497	5,119,685
Unlisted investments	8	23,757,284	21,125,066
		<u>32,148,881</u>	<u>27,939,751</u>
<u>Current Assets</u>			
Amount due from subsidiary undertaking	5,017,742		10,041,973
Other debtors and accrued income	358,033		316,675
		<u>5,375,775</u>	<u>10,358,648</u>
<u>Creditors: amounts falling due within one year</u>			
Amount due to parent undertaking	20,109,990		14,252,427
Amounts due to subsidiary undertakings	100,000		-
Accruals	1,763		7,782
Corporation tax payable 1st December, 1997	346,000		20,704
Other tax payable	14,936		-
		<u>27,132,689</u>	<u>24,974,311</u>
<u>Net Current Liabilities</u>		(21,756,914)	(14,615,663)
<u>Total Assets less Current Liabilities</u>		<u>10,391,967</u>	<u>13,324,088</u>
<u>Provisions for Liabilities and Charges</u>			
Other Provisions		(3,000,000)	-
<u>Net Assets</u>		<u>7,391,967</u>	<u>13,324,088</u>
<u>Share Capital and Reserves</u>			
Share capital	9	2,000,000	2,000,000
Profit and loss account		5,391,967	11,324,088
<u>Equity Shareholders' Funds</u>	10	<u>7,391,967</u>	<u>13,324,088</u>

..........Director

..........Director

8th April, 1997

The notes on pages 6 to 10 form part of these accounts

NOTES TO THE ACCOUNTS1. Accounting Policies1.1 Basis of preparation

The accounts have been prepared on a going concern basis under the historical cost convention and in accordance with currently applicable accounting standards.

1.2 Investments

Investments are stated at cost or, where it is estimated that the value of an investment has been permanently impaired, at estimated realisable value.

1.3 Income from investments

Dividend income is brought into account when declared. Franked income is stated inclusive of the associated tax credit. Interest income is incorporated on an accruals basis.

1.4 Taxation

The charge for taxation takes into account the timing differences in the accounting and taxation treatment of certain items to the extent that they are expected to reverse in the future. Deferred taxation is provided on the liability method.

2. Income from investments

	1997			1996		
	Listed £	Unlisted £	Total £	Listed £	Unlisted £	Total £
Shares	608,020	879,478	1,487,498	602,224	211,907	814,131
Others	-	158,542	158,542	-	42,047	42,047
	<u>608,020</u>	<u>1,038,020</u>	<u>1,646,040</u>	<u>602,224</u>	<u>253,954</u>	<u>856,178</u>

All of the income from shares is franked income.

3. Other operating income

Other operating income comprises:-

Gain on disposal of investments

Interest received

	<u>1997</u> £	<u>1996</u> £
Gain on disposal of investments	903,474	-
Interest received	6,480	24,251
	<u>909,954</u>	<u>24,251</u>

NOTES TO THE ACCOUNTS (Continued)

4. <u>Interest payable</u>	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Interest on bank loans	<u>-</u>	<u>1,272</u>

5. <u>Other operating expenses</u>	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Other operating expenses comprises :		
Amounts written off fixed asset investments	3,285,826	3,304,361
Audit fees	1,500	1,500
Other operating expenses	12,299	7,635
	<u>3,299,625</u>	<u>3,313,496</u>

The Company has no employees and none of the Directors receives any emoluments from the Company.

6. Taxation

The taxation charge which is based on the profit on ordinary activities comprises

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Corporation tax at 33%	346,000	20,704
Deferred taxation	-	2,459,778
	<u>346,000</u>	<u>2,480,482</u>
Tax credits on franked investment income	297,500	162,826
Over provision of group relief in earlier years	2,732	-
	<u>646,232</u>	<u>2,643,308</u>

7. Investments in subsidiary undertakings

	<u>1997</u>
	<u>£</u>
At cost as at 1st March, 1996	1,695,000
Acquired in the year	1,200,100
At cost as at 28th February, 1997	<u>2,895,100</u>

NOTES TO THE ACCOUNTS (Continued)7. Investments in subsidiary undertakings (Continued)

Details of the subsidiary undertakings, all of which are registered in the UK, are noted below:-

<u>Name of Company</u>	<u>Principal Business</u>	<u>% of Ordinary Shares Held</u>
Above Bar (Southampton) Limited	Property Investment	100
Bank of Scotland Insurance Services Ltd	Insurance Broking	100
SFE Investments Ltd	Investment	100
BOS (Shared Appreciation Mortgages) No.1 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No.2 PLC	Mortgage Lending	100
Mercat Leasing Limited	Finance Leasing	100

Group accounts are not submitted as the Company is exempt under Section 228 Companies Act 1985 since it is a wholly owned subsidiary of another body corporate which is incorporated in the United Kingdom.

The value of the investments in the subsidiary undertakings, in the view of the Directors, is not less than the amount at which they are stated in the accounts.

8. Investments

	<u>Listed</u>	<u>Unlisted</u>		
	<u>Investments</u>	<u>Shares</u>	<u>Other Investments</u>	<u>Total Unlisted Investments</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
As at 1st March, 1996	5,119,685	20,566,181	558,885	21,125,066
Additions	133,029	6,085,965	600,040	6,686,005
Transfer	282,033	(282,033)	-	(282,033)
Disposals	(38,250)	(322,485)	(163,443)	(485,928)
Amount written off	-	(3,285,826)	-	(3,285,826)
As at 28th February, 1997	<u>5,496,497</u>	<u>22,761,802</u>	<u>995,482</u>	<u>23,757,284</u>

Market value of listed investments and Directors' estimated value of others:

	<u>Listed</u>	<u>Unlisted</u>
	<u>£</u>	<u>£</u>
1997	8,950,000	23,758,000
1996	5,741,000	21,384,000

The listed investments are listed on the London Stock Exchange.

The cumulative amount written off the cost of unlisted investments is £6,590,186 (1996: £3,304,360).

NOTES TO THE ACCOUNTS (Continued)8. Investments (Continued)

The principal unlisted investments are:

<u>Registered in UK</u>	<u>Class of Shares</u>	<u>Proportion of Class Held</u>	<u>Principal Area of Operations</u>
		<u>%</u>	
Paragon Hotels Ltd	"B" Ordinary	100	England
	"C" Ordinary	100	
	Preference	100	
Tulloch Ltd	Cumulative Convertible Participating Preferred Ordinary	20	Scotland
	6% Cumulative Redeemable Preference	43	
Advance Payroll Services Ltd	"B" Ordinary	50	Scotland
	7% Cumulative Redeemable Preference	100	

9. Share capital

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Authorised		
100 million ordinary shares of £1	<u>100,000,000</u>	<u>100,000,000</u>
Allotted, issued and fully paid		
2 million ordinary shares of £1	<u>2,000,000</u>	<u>2,000,000</u>

10. Movement in Equity Shareholders' Funds

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Profit after taxation for the year	627,879	4,964,326
Dividend	(6,560,000)	(10,693,398)
Net movement in Equity Shareholders' Funds	<u>(5,932,121)</u>	<u>(5,729,072)</u>
Equity Shareholders' Funds at 1st March, 1996	13,324,088	19,053,160
Equity Shareholders' Funds at 28th February, 1997	<u>7,391,967</u>	<u>13,324,088</u>

NOTES TO THE ACCOUNTS (Continued)11. Parent undertaking

The Company's parent undertaking is The Governor and Company of the Bank of Scotland, incorporated by Act of the Scottish Parliament in 1695. The Company is included in the group accounts of Bank of Scotland and copies of its Annual Report and Accounts may be obtained from its Head Office at The Mound, Edinburgh.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the year and of the profit for the year. The Directors consider that in preparing the financial statements on pages 4 to 10 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider applicable, have been followed.

The Directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS
OF UBERIOR INVESTMENTS PLC

We have audited the accounts on pages 4 to 10, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 11 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 28th February, 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants,
Registered Auditor,
Edinburgh.

7 April, 1997