

UBERIOR INVESTMENTS PLC

REPORT AND ACCOUNTS

28th February, 1998

COMPANY NUMBER 73998

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REPORT OF THE DIRECTORSDirectors

P. A. Burt (Chairman)

J. S. Hunter

W. G. McQueen

I. W. St.C. Scott

The Directors submit their report and audited accounts of the Company for the year ended 28th February, 1998.

Principal 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 £14,457,334 for the year (1997 - £1,274,111).

After taxation, the profit for the year amounted to £12,337,367 (1997 - £627,879). An interim dividend was paid in the year, amounting to £6,000,000. The Directors recommend payment of a final dividend of £11,200,000.

The Directors consider the Company's position and results for the year to be satisfactory.

In the year under review the Company acquired a 100% interest in a number of Bank of Scotland Group companies from a fellow subsidiary company for a total cost of £168.3 million. The Company also further expanded its investment interests mainly in venture capital funds including Alchemy Plan (Holland) LP, 3i Europartners, Legal & General Ventures and PRICOA Private Capital Partners.

Directors and their interests

The Directors at the date of this report are as stated above. W. G. McQueen and I. W. St.C. Scott were appointed Directors on 15th April, 1997 and 1st September, 1997 respectively. In addition, J. R. Browning and Sir Bruce Pattullo served as Directors until 31st August, 1997 and 28th February, 1998 respectively.

I. W. St.C. Scott had an interest in 1,377 ordinary shares in Bank of Western Australia Ltd (At date of appointment: 1,338). No other 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 28th February, 1997</u> <u>or at date of appointment</u>	<u>At 28th February, 1998</u>
	<u>Ordinary Stock Units of 25p each</u>	<u>Ordinary Stock Units of 25p each</u>
P. A. Burt	439,683	391,118
J. S Hunter	136,330	114,754
W G McQueen	51,874	50,519
Sir Bruce Pattullo	404,045	360,291
I. W. St. C. Scott	184,609	183,997

Directors and their interests (Continued)

Options to subscribe for Ordinary Stock of Bank of Scotland were granted to or exercised by Directors during the year to 28th February, 1998 as follows:-

Executive Stock Options held by Directors

	<u>#Options held as at 1st March 1997</u>	<u>#Options granted</u>	<u>#Options held as at 28th February 1998</u>
P A Burt	342,000	53,000	395,000
J S Hunter	92,000	15,000	107,000
W G McQueen	213,000	32,000	245,000
Sir Bruce Pattullo	568,500	-	568,500
I W St.C. Scott	213,000	24,000	237,000

Ordinary Stock units of 25p each

Savings Related Stock Options held by Directors

	<u>#Options held as at 1st March 1997</u>	<u>#Options granted</u>	<u>#Options held as at 28th February 1998</u>
J. S. Hunter	11,784	666	12,450

Ordinary Stock units of 25p each

No options were exercised or lapsed during the year.

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.

8 April, 1998

Registered Office

The Mound,
Edinburgh,
EH1 1YZ.

PROFIT AND LOSS ACCOUNTFor the year ended 28th February, 1998

	<u>Notes</u>	<u>1998</u> <u>£</u>	<u>1997</u> <u>£</u>
Income from investments in subsidiary undertaking		8,880,277	5,017,742
Income from other fixed asset investments	2	2,990,668	1,646,040
Other operating income	3	5,540,121	909,954
Interest payable	4	(701,969)	-
Other operating expenses	5	(2,251,763)	(3,299,625)
Provision		-	(3,000,000)
Profit on ordinary activities before taxation		<u>14,457,334</u>	<u>1,274,111</u>
Taxation	6	(2,119,967)	(646,232)
Profit on ordinary activities after taxation		<u>12,337,367</u>	<u>627,879</u>
Ordinary dividend - paid		6,000,000	-
- proposed		11,200,000	6,560,000
Retained loss for the year		<u>(4,862,633)</u>	<u>(5,932,121)</u>
Profit and loss account at 1st March, 1997		5,391,967	11,324,088
Profit and loss account at 28th February, 1998		<u><u>529,334</u></u>	<u><u>5,391,967</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 5 to 9 form part of these accounts

BALANCE SHEETAs at 28th February, 1998

	<u>Notes</u>	<u>1998</u>	<u>1997</u>
		<u>£</u>	<u>£</u>
<u>Fixed Assets</u>			
Investments in subsidiary undertakings	7	168,810,583	2,895,100
Listed investments	8	8,422,857	5,496,497
Unlisted investments	8	35,368,468	23,757,284
		<u>212,601,908</u>	<u>32,148,881</u>
<u>Current Assets</u>			
Amount due from subsidiary undertakings		5,144,000	5,017,742
Other debtors and accrued income		241,497	358,033
		<u>5,385,497</u>	<u>5,375,775</u>
<u>Creditors: amounts falling due within one year</u>			
Amount due to parent undertaking		210,499,653	26,669,990
Amounts due to subsidiary undertakings		100,100	100,000
Accruals		1,764	1,763
Corporation tax		1,856,554	346,000
Other tax payable		-	14,936
		<u>212,458,071</u>	<u>27,132,689</u>
<u>Net Current Liabilities</u>		(207,072,574)	(21,756,914)
<u>Total Assets less Current Liabilities</u>		<u>5,529,334</u>	<u>10,391,967</u>
<u>Provisions for Liabilities and Charges</u>			
Other Provisions		(3,000,000)	(3,000,000)
<u>Net Assets</u>		<u>2,529,334</u>	<u>7,391,967</u>
<u>Share Capital and Reserves</u>			
Share capital	9	2,000,000	2,000,000
Profit and loss account		529,334	5,391,967
<u>Equity Shareholders' Funds</u>	10	<u>2,529,334</u>	<u>7,391,967</u>

.....*Peter Burt*.....Director
*W.B. McQueen*.....Director

8 April, 1998

The notes on pages 5 to 9 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

	1998			1997		
	Listed £	Unlisted £	Total £	Listed £	Unlisted £	Total £
Shares	687,632	2,182,269	2,869,901	608,020	879,478	1,487,498
Others	-	120,767	120,767	-	158,542	158,542
	<u>687,632</u>	<u>2,303,036</u>	<u>2,990,668</u>	<u>608,020</u>	<u>1,038,020</u>	<u>1,646,040</u>

Of the income from shares, £2,819,901 is franked income (1997: £1,487,498) and £50,000 is unfranked income (1997: nil).

3. Other operating income

	<u>1998</u> £	<u>1997</u> £
Other operating income comprises:-		
Gain on disposal of investments	5,539,966	903,474
Interest received	155	6,480
	<u>5,540,121</u>	<u>909,954</u>

NOTES TO THE ACCOUNTS (Continued)

4. <u>Interest payable</u>	<u>1998</u>	<u>1997</u>
	<u>£</u>	<u>£</u>
Interest on bank loans from parent undertaking	<u>701,969</u>	<u>-</u>
5. <u>Other operating expenses</u>	<u>1998</u>	<u>1997</u>
	<u>£</u>	<u>£</u>
Other operating expenses comprises :		
Amounts written off fixed asset investments	2,250,000	3,285,826
Audit fees	1,500	1,500
Other operating expenses	263	12,299
	<u>2,251,763</u>	<u>3,299,625</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>1998</u>	<u>1997</u>
	<u>£</u>	<u>£</u>
Corporation tax	1,545,146	346,000
Tax credits on franked investment income	563,980	297,500
Under provision in earlier years	10,841	2,732
	<u>2,119,967</u>	<u>646,232</u>

7. Investments in subsidiary undertakings

	<u>1998</u>
	<u>£</u>
At cost as at 1st March, 1997	2,895,100
Acquired in the year	168,345,583
Disposals in the year	(180,100)
Written off in year	(2,250,000)
At cost as at 28th February, 1998	<u>168,810,583</u>

The cumulative amount written off the cost of investments in subsidiary undertakings is £2,250,000 (1997: £Nil).

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

Details of the subsidiary undertakings, all of which are incorporated 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
Chesser Properties Limited	Property Letting	51
Bosint Investments Limited	Investment	100
BOS Investments (CBS) Limited	Investment	100
Bank of Scotland Insurance Services Ltd	Insurance Broking	100
Robertson Avenue Investments Limited	Investment	100
BOS (Shared Appreciation Mortgages) No.1 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No.2 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No. 3 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No. 4 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No. 5 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages) No. 6 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages (Scotland)) PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages (Scotland)) No. 2 PLC	Mortgage Lending	100
BOS (Shared Appreciation Mortgages (Scotland)) No. 3 PLC	Mortgage Lending	100
SFE Investments Ltd	Investment	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

	Listed	Unlisted		
	Investments	Shares	Other Investments	Total Unlisted Investments
	£	£	£	£
As at 1st March, 1997	5,496,497	22,761,802	995,482	23,757,284
Additions	3,568,651	3,264,000	14,292,687	17,556,687
Disposals	(642,291)	(5,090,001)	(855,502)	(5,945,503)
As at 28th February, 1998	<u>8,422,857</u>	<u>20,935,801</u>	<u>14,432,667</u>	<u>35,368,468</u>

Included within total additions of listed and unlisted investments of £21,125,338 is £2,597,174 of listed shares and £539,500 of unlisted shares transferred from group companies. Disposals of unlisted shares during the year of £5,090,001 includes £1,300,000 which was transferred to other group companies.

Market value of listed investments amounted to £14,528,000 (1997: £8,950,000).

The listed investments are listed on the London Stock Exchange.

The cumulative amount written off the cost of unlisted investments is £6,590,186 (1997: £6,590,186).

The principal related company investments, which are unlisted are:

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

9. Share capital

	<u>1998</u>	<u>1997</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>1998</u>	<u>1997</u>
	<u>£</u>	<u>£</u>
Profit after taxation for the year	12,337,367	627,879
Dividends	(17,200,000)	(6,560,000)
Net movement in Equity Shareholders' Funds	<u>(4,862,633)</u>	<u>(5,932,121)</u>
Equity Shareholders' Funds at 1st March, 1997	7,391,967	13,324,088
Equity Shareholders' Funds at 28th February, 1998	<u>2,529,334</u>	<u>7,391,967</u>

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, EH1 1YZ.

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 3 to 9 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 3 to 9, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 5.

Respective responsibilities of directors and auditors

As described on page 10 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.

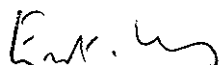
Basis of opinion

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, 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants,
Registered Auditor,
Edinburgh.

8 April, 1998