

Directors' Report

The Directors have pleasure in submitting their annual report and accounts for the year ended 31 March 1997.

Activities The principal activities of the company are to construct and operate a conference centre and to develop the surrounding 9 acre site in Morrison Street and Lothian Road, Edinburgh, known as the Exchange, in accordance with a development agreement between the company and The City of Edinburgh Council.

Financial Matters The loss for the year amounted to £3,954,654. The Directors do not recommend payment of a dividend for the year ended 31 March 1997.

Business Review The year to 31 March 1997 was significant, for the company, as this was the first full year of operation of the Edinburgh International Conference Centre. During the year the conference centre hosted 175 events in many different formats, for varying durations and in many shapes and sizes. The client base was also extremely wide and ranged from small one-off activities to hosting events for such disparate organisations as IBM, Lloyds TSB, The Edinburgh International Festival, The Royal College of Ophthalmologists and The British Dental Association.

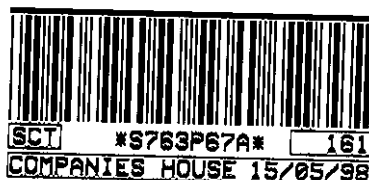
These events generated 100,428 delegates days for the Conference Centre resulting in an estimated economic benefit to the City of Edinburgh of £10.56 million. Forward bookings are very healthy and at the end of the year 90% of the sales target for the next financial period had been confirmed. In addition at 31 March the company had confirmed bookings up to the year 2004, with tentative bookings being held up to the year 2010.

During the year continued progress was made with regard to furthering the development of the infrastructure within the Exchange, with efforts being concentrated on the planning and design of a public square to be situated at the centre of the development. Activities have also been focused on securing an increase in the let space within Conference House, a speculative office development owned by the company. In addition to this the company has continued to market the remaining land sites within the Exchange.

Lothian and Edinburgh Enterprise Limited redeemed its redeemable preference share on 17 December 1996 and on that date The City of Edinburgh Council became the ultimate holding organisation of the company. In December 1996 the company became a subsidiary of CEC Holdings Ltd, which in turn is a subsidiary of The City of Edinburgh Council. As a result of this and in order to assimilate accounting reporting dates with fellow subsidiary undertakings the company's accounting reference will in future be 31 December.

Future Developments The directors intend to maintain the objectives and aims of the company, which have resulted in notable achievements to date in both of the principal areas of the company's operations. They consider that the successes of the EICC and the Exchange development will continue during the period to 31 December 1997.

Fixed Assets There have been no significant additions to fixed assets during the year. Movements in fixed assets are disclosed in note 8 to the accounts.



Directors and Directors' Interests The Directors who served during the year were as follows:

D Anderson	- appointed 30 May 1996
D Bonnar	- resigned 18 December 1996; reappointed 16 January 1997
D Crichton	- resigned 16 January 1997; reappointed 31 January 1997; resigned 31 March 1997
S Henderson	- resigned 30 May 1996
L Hinds	
J McFarlane	- resigned 16 January 1997; reappointed 31 January 1997; resigned 31 March 1997
D McGougan	

None of the Directors had any interest in the shares of the company during the year.

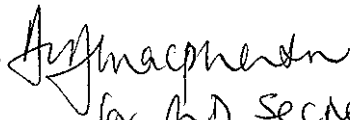
The following Board appointments and resignations occurred after the year end:

R Aldridge	- appointed 29 May 1997
A MacKay	- appointed 29 May 1997
D Sleight	- appointed 29 May 1997
L Hinds	- resigned 29 May 1997
D McGougan	- resigned 30 May 1997

Auditors In accordance with the Companies Act a resolution concerning the reappointment of Ernst & Young will be submitted to the Annual General Meeting.

By Order of the Board MD Secretaries Limited.

29 January 1998



for MD Secretaries Ltd

Statement of Directors' Responsibilities

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 profit or loss of the company for that period. 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;

prepare the accounts on the going concern basis unless it is inappropriate to presume that the company 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 company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors to the members of Edinburgh International Conference Centre Limited

We have audited the accounts on pages 14 to 24, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 17.

Respective responsibilities of Directors and Auditors As described on page 13 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 affairs of the company as at 31 March 1997 and of its loss 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

Profit and Loss Account For the year ended 31 March 1997

	Notes	1997 £	1996 £
Turnover	2	2,446,897	923,403
Cost of sales		(5,612,578)	(3,623,273)
Gross loss		(3,165,681)	(2,699,870)
Development expenses	(426,301)	-	(515,701)
Other administration expenses	(437,783)	-	(366,110)
		(864,084)	(881,811)
Operating loss	3	(4,029,765)	(3,581,681)
Revenue grant		2,110,087	640,233
Interest receivable	4	75,111	175,994
Interest payable and similar charges	5	(2,110,087)	(640,233)
Loss on ordinary activities		(3,954,654)	(3,405,687)
Retained loss brought forward		(6,492,702)	(3,087,015)
Retained loss carried forward		(10,447,356)	(6,492,702)

There are no recognised gains or losses, other than the loss on ordinary activities for the year of £3,954,654 (1996 £3,405,687)

Balance Sheet At 31 March 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	8	42,602,425	44,230,547
Current assets			
Debtors	9	1,161,808	681,340
Investments	10	44,246,972	43,343,245
Cash		<u>1,060,206</u>	<u>467,530</u>
		46,468,986	44,492,115
Creditors: Amounts falling due within one year	11	<u>(1,628,248)</u>	<u>(1,788,951)</u>
Net current assets		<u>44,840,738</u>	<u>42,703,164</u>
Total assets less current liabilities		<u>87,443,163</u>	<u>86,933,711</u>
Creditors: Amounts falling due after more than one year			
Loan	12	2,046,162	-
Loan stock	12	46,090,401	47,328,944
Obligations under finance leases	13	<u>42,646,596</u>	<u>40,536,509</u>
		90,783,159	87,865,453
Accruals & deferred income	14	<u>7,107,298</u>	<u>5,560,938</u>
		97,890,457	93,426,391
Capital & reserves			
Called up share capital	15	62	22
Profit & loss account		<u>(10,447,356)</u>	<u>(6,492,702)</u>
Shareholders' funds	16	<u>(10,447,294)</u>	<u>(6,492,680)</u>
		<u>87,443,163</u>	<u>86,933,711</u>

Director:

Director:

29 January 1998

Cash Flow Statement For the year ended 31 March 1997

	Notes	1997 £	1996 £
Net cash outflow from operating activities	3b	(2,226,434)	(778,464)
Returns on investments and servicing of finance			
Interest received		75,111	175,994
Capital expenditure			
Payments to acquire tangible fixed assets		<u>(321,017)</u>	<u>(11,132,343)</u>
Net cash outflow before financing		(2,472,340)	(11,734,813)
Management of Liquid Resources			
Purchase of liquid resources	-		(173,000)
Sale of liquid resources	<u>2,095,313</u>		<u>-</u>
Net cash inflow/(outflow) from management of liquid resources		2,095,313	(173,000)
Financing			
Issue of ordinary share capital	40		20
Net movement on loan stock	(1,238,543)		12,214,106
Net movement in short term borrowings	<u>2,046,162</u>		<u>-</u>
Net cash inflow from financing		<u>807,659</u>	<u>12,214,126</u>
Increase in cash		<u>430,632</u>	<u>306,313</u>
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the period	430,632		306,313
Cash inflow from increase in debt and lease financing	(807,659)		(12,214,106)
Cash inflow from decrease in liquid resources	<u>(2,095,313)</u>		<u>173,000</u>
Change in net debt arising from cash flows		(2,472,340)	(11,734,793)
Increase in finance lease obligations		<u>(2,110,087)</u>	<u>(40,536,509)</u>
Movement in debt during the period		(4,582,427)	(52,271,302)
Net debt at 1 April 1996		<u>(85,348,138)</u>	<u>(33,076,836)</u>
Net debt at 31 March 1997	3c	<u>(89,930,565)</u>	<u>(85,348,138)</u>

Notes

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

Basis of Preparation The accounts have been prepared under the historical cost convention.

Fixed Assets Fixed assets have been recorded at cost, less accumulated depreciation.

Depreciation Fixed tangible assets are stated at historical cost less accumulated depreciation. The cost of tangible assets is written off by equal annual installments over the expected useful lives of the assets as follows:-

Leasehold Land and Buildings: 50 years. Plant & Machinery: 3 to 15 years. Furniture & Fittings: 3 to 10 years.

Capital Grants Grants in respect of capital expenditure are credited to deferred income and are released to the profit and loss account over the expected useful lives of the relevant assets by equal annual installments. In accordance with the provisions of the overall sale and leaseback transaction, any increment in the funds held in trust (see Note 10) in the course of the year, over and above that required to offset the lease interest payments and the finance costs, are credited to deferred income. The City of Edinburgh Council has title to interest receivable on the funds held in trust, however an agreement is in place for the trust to obtain an equal amount in the form of a grant from The City of Edinburgh Council. This is intended to provide a capital contribution towards the designated construction works and will be released to the profit and loss account over the expected useful lives of the relevant assets by equal annual installments.

Leasing and Hire Purchase Commitments The lease of the Conference Centre is treated as a finance lease. A finance lease is a lease under which substantially all the risks and rewards of ownership of the asset pass to the lessee company, and the assets are capitalised in the lessee's balance sheet and depreciated over their useful lives. The capital elements of future obligations under the leases are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. The assets which were subject to the sale and leaseback transaction have been depreciated over their useful lives, rather than the period of the lease, as the substance of the transaction is effectively that of financing.

Revenue Grants Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Operating Lease Payments Operating lease payments are charged in the profit and loss account on a straight line basis.

Taxation The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Pensions The company operates a defined contributions pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2. Turnover

Turnover represents income arising from the letting of rooms and the charges levied in respect of additional facilities incurred by clients using the Conference Centre and income arising from the development of the Exchange, excluding value added tax. All turnover arises from continuing activities carried on within the United Kingdom. The company operates in two principal areas of activity, that of the provision of conference and exhibition facilities and facilitating the development of a previously derelict land site. The turnover of these activities is shown separately below:-

	1997	1996
	£	£
Conference facilities	2,194,584	800,889
Site development	<u>252,313</u>	<u>122,514</u>
	<u>2,446,897</u>	<u>923,403</u>

3. Operating Loss

(a) This is stated after charging/(crediting)

	£	£
Depreciation of fixed assets - owned	161,922	38,393
Depreciation of fixed assets - leased	1,787,217	895,966
Auditors' remuneration - audit services	12,000	10,000
Auditors' remuneration - non-audit services	4,500	8,500
Operating lease rentals - plant and machinery	40,077	37,330
Capital grants released	<u>(48,765)</u>	<u>(24,383)</u>

(b) Reconciliation of operating loss to net cash inflow from operating activities

	£	£
Operating loss	(1,919,678)	(2,941,448)
Depreciation of tangible fixed assets	1,949,139	934,359
Increase in investments	(2,999,040)	(910,371)
Increase in operating debtors and prepayments	(480,468)	1,595,781
Decrease in operating creditors and accruals	(322,747)	(469,045)
Increase in capital grants	840,188	538,029
Increase in deferred income	<u>706,172</u>	<u>474,231</u>
Net cash outflow from operating activities	<u>(2,226,434)</u>	<u>(778,464)</u>

(c) Reconciliation of net cash flow to movement in net debt.

	Opening	Cash Flow	Re-classification	Other	Closing
	£	£	£	£	£
Cash	467,530	592,676	-	-	1,060,206
Overdraft	(148,215)	(162,044)	-	-	(310,259)
		<u>430,632</u>			
Liquid resources	2,198,000	(2,095,313)	-	-	102,687
Short term loans	-	-	(2,046,162)	-	(2,046,162)
Finance lease obligations	(40,536,509)	-	-	(2,110,087)	(42,646,596)
Long term loans	-	-	0	-	-
Debentures/loans stock	(47,328,944)	(807,659)	2,046,162	-	(46,090,441)
Total	<u>(85,348,138)</u>	<u>(2,472,340)</u>	<u>-</u>	<u>(2,110,087)</u>	<u>(89,930,565)</u>

4. Interest Receivable

	1997	1996
	£	£
Interest due on bank deposits	65,424	153,595
Interest due on other deposits	<u>9,687</u>	<u>22,399</u>
	<u>75,111</u>	<u>175,994</u>

5. Interest Payable

	£	£
Finance charges payable under finance leases	<u>2,110,087</u>	<u>640,233</u>

6. Staff Costs

	£	£
Salaries	922,745	812,661
Social security costs	94,768	82,397
Pension costs	<u>29,136</u>	<u>27,805</u>
	<u>1,046,649</u>	<u>922,863</u>

The average number of staff employed during the year was

53

45

7. Directors' Emoluments

No Directors' emoluments were paid during the year to 31 March 1997, or in the previous year.

8. Tangible Assets

	Road Construction	Long Leasehold Buildings	Office Equipment & Furniture	Total
	£	£	£	£
Cost				
At 1 April 1996	2,253,668	36,294,496	6,661,681	45,209,845
Additions in year at cost	<u>0</u>	<u>92,864</u>	<u>228,153</u>	<u>321,017</u>
At 31 March 1997	<u>2,253,668</u>	<u>36,387,360</u>	<u>6,889,834</u>	<u>45,530,862</u>
Depreciation				
At 1 April 1996	-	325,977	653,321	979,298
Charge for the year	<u>-</u>	<u>733,733</u>	<u>1,215,406</u>	<u>1,949,139</u>
At 31 March 1997	<u>-</u>	<u>1,059,710</u>	<u>1,868,727</u>	<u>2,928,437</u>
Net book value 31 March 1996	2,253,668	35,968,519	6,008,360	44,230,547
Net book value 31 March 1997	<u>2,253,668</u>	<u>35,327,650</u>	<u>5,021,107</u>	<u>42,602,425</u>

The net book value of long leasehold buildings and office equipment and furniture, relating to assets held under finance leases, was £31,638,091 (1996 - £32,271,746) and £4,720,885 (1996 - £5,853,349) respectively.

9. Debtors

	1997	1996
	£	£
Amount due by The City of Edinburgh Council	8,954	95,628
Trade debtors	957,658	487,788
Other debtors	144,011	24,541
Value added tax	369	29,916
Prepayments	<u>50,816</u>	<u>43,467</u>
	<u>1,161,808</u>	<u>681,340</u>

10. Investments

	£	£
Bank deposits	441,285	2,536,598
Bank deposits held in trust	43,805,687	40,806,647
	<u>44,246,972</u>	<u>43,343,245</u>

The funds held in trust represent the sales proceeds arising from the sale and leaseback transaction. These funds have been recognised as an asset as they are yielding a future benefit to the company arising from past transactions. The funds are held in two separate accounts. At the year end the No. 1 account had a balance of £37,881,047 and the No. 2 account a balance of £5,924,640.

10. Investments (continued)

The No. 1 account is subject to a charge by Bank of Scotland Trust Company (International) Ltd (the trustee) in favour of the Bank of Scotland. This account has been designated to meet the company's obligations under the leasing arrangements, until all of these obligations have been fulfilled. The only permitted withdrawals, subject to any changes in the assumptions implicit in the lease agreement, from the No. 1 account are those required to meet the company's obligations to the finance lessor under the lease transaction. The funds held in the No. 2 account can be invested broadly in whichever way EICC Ltd, The City of Edinburgh Council and the Bank of Scotland Trust Company (International) Ltd determine.

11. Creditors : Amounts falling due within one year

	1997	1996
	£	£
Bank overdraft	310,259	148,215
Payments due to contractors	503,876	580,550
Trade creditors	456,631	256,817
Other taxes and social security costs	39,138	34,294
Other creditors	284,668	173,273
Accruals	<u>33,676</u>	<u>595,802</u>
	<u>1,628,248</u>	<u>1,788,951</u>

Included within other creditors is £2,269 relating to outstanding contributions payable to the pension scheme (1996 £3,321)

12. Creditors: Amounts falling due after more than one year

	1997	1996
	£	£
Short term loan	2,046,162	-
Convertible unsecured loan stock	45,296,561	47,328,944
Non convertible unsecured loan stock	<u>793,840</u>	<u>-</u>
	<u>48,136,563</u>	<u>47,328,944</u>
Convertible unsecured loan stock:		
Issued to The City of Edinburgh Council	45,287,609	47,233,318
Due to be issued to The City of Edinburgh Council	<u>8,952</u>	<u>95,626</u>
	<u>45,296,561</u>	<u>47,328,944</u>

During the year £2,046,162 of Convertible Unsecured Loan Stock was re-designated as a Short Term Loan.

The convertible unsecured loan stock issued to The City of Edinburgh Council bears no interest and is repayable on 31 March 2117 at par. The City of Edinburgh Council have the right to convert this loan stock into fully paid preferred ordinary shares at the rate of one preferred ordinary share per £1 nominal of loan stock.

The non convertible unsecured loan stock issued to The City of Edinburgh Council bears no interest and is repayable on 31 December 2022.

13. Obligations under Finance Leases

	1997	1996
	£	£
Amounts payable:		
Within one year	-	-
In two to five years	6,023,206	4,225,526
In more than five years	<u>49,908,373</u>	<u>51,706,053</u>
	55,931,579	55,931,579
Less: finance charges allocated to future periods	<u>(13,284,983)</u>	<u>(15,395,070)</u>
	<u>42,646,596</u>	<u>40,536,509</u>
 Finance leases are analysed as follows:		
Current obligations	-	-
Non-current obligations	<u>42,646,596</u>	<u>40,536,509</u>
	<u>42,646,596</u>	<u>40,536,509</u>

On 8 December 1995 the Company entered into a sale and leaseback transaction with W & G Lease Finance Ltd, whereby the Conference Centre building and the associated plant, equipment and furniture was sold for £40,350,561. Although the term of the lease is for a period of thirty five years, the Company may seek to revert to a reversionary lease at the end of year 7, 12 or 17. W & G Lease Finance Ltd also have an option to break the lease on these dates. It is anticipated that the effective term of the lease will be for a period of seven years.

14. Accruals and Deferred Income

	1997	1996
	£	£
Capital grants	5,926,895	5,086,707
Deferred income	<u>1,180,403</u>	<u>474,231</u>
	<u>7,107,298</u>	<u>5,560,938</u>
 The above capital grants have been received in respect of building construction and roadworks.		
Capital grants brought forward	5,086,707	4,548,678
Received during year	888,953	562,412
Released during year	<u>(48,765)</u>	<u>(24,383)</u>
Capital grants carried forward	<u>5,926,895</u>	<u>5,086,707</u>
 Capital grants have been received, or are due from, the following:		
Lothian and Edinburgh Enterprise Limited	4,691,952	4,691,952
The City of Edinburgh Council	149,000	149,000
Sale and leaseback transaction	<u>1,159,092</u>	<u>270,138</u>
	<u>6,000,044</u>	<u>5,111,090</u>

15. Share Capital

	1997	1996	1997	1996
	No.	No.	£	£
Authorised:				
Preferred Ordinary shares	55,000,000	55,000,000	55,000,000	55,000,000
Ordinary shares	980	980	980	980
RBL Ordinary shares	10	10	10	10
Preference shares	10	10	10	10
"A" Redeemable Preference shares	1	1	-	-
"B" Redeemable Preference shares	1	1	-	-
			<u>55,001,000</u>	<u>55,001,000</u>
Allotted, called up and fully paid:				
Preferred Ordinary shares	40	-	40	-
Ordinary shares	2	2	2	2
RBL Ordinary shares	10	10	10	10
Preference shares	10	10	10	10
"A" Redeemable Preference shares	-	1	-	-
"B" Redeemable Preference shares	1	1	-	-
			<u>62</u>	<u>22</u>

Two Ordinary shares are issued to The City of Edinburgh Council. In addition one redeemable preference share has been issued to both The City of Edinburgh Council and Lothian and Edinburgh Enterprise Limited. The "A" redeemable preference share held by Lothian and Edinburgh Enterprise Limited was redeemed on 17 December 1996. The City of Edinburgh Council is the ultimate holding organisation of the Company.

The "B" redeemable preference share may be redeemed at the request of the shareholder prior to 31 March 2002 subject to the procedures in the Articles of Association, or otherwise will be redeemed on 31 March 2002.

The redeemable preference share carries no voting rights, has no right to participate in profits and may participate in a distribution of capital only to the extent of the amount paid up on each share.

The preference shares carry no voting rights, but have the right to a fixed cumulative preferential dividend at the rate of 6% (net of associated tax credit) per annum, on the amount paid up, to be paid annually on 31 March each year.

The RBL ordinary shares carry no voting rights and are entitled to a dividend of £0.01 for every full amount of £100 worth of assets paid. This is payable after payment of the fixed dividend to holders of the preference shares.

The ordinary and preferred ordinary shares carry one vote per share and participate in profits available for dividend pro rata.

In the event of a capital distribution the shares rank in the following order:

£1 for each preference share ; £1 for each preferred share ; £1 for each ordinary share ; £1 for each RBL ordinary share ; Thereafter pro rata

16. Movement in Shareholders' Funds

	1997	1996
	£	£
Shareholders' funds brought forward	(6,492,680)	(3,087,013)
Increase in share capital	40	20
Loss on ordinary activities for the year	<u>(3,954,654)</u>	<u>(3,405,687)</u>
Shareholders' funds carried forward	<u>(10,447,294)</u>	<u>(6,492,680)</u>

17. Capital Commitments

The following capital commitments existed at the balance sheet date :

The company has entered into a construction contract for Conference House. The construction of the building is now complete although retentions of £52,725 are still outstanding. It is anticipated that these will be paid in the year to 31 December 1998.

18. Financial Commitments

At 31 March 1997 the company had annual commitments under non-cancellable operating leases relating to plant and equipment as follows:

	1997	1996
	£	£
Operating leases which expire:		
Within one year	1,940	2,198
In two to five years	32,575	22,715
In over five years	<u>-</u>	<u>-</u>
	<u>34,515</u>	<u>24,913</u>

The company had entered into a nine year lease for office premises. The terms of the lease however, offered a "break option" at 31 January 1997. The company exercised this option and the lease was terminated at that date.

19. Pension Commitments

The company operates a defined contributions scheme for its employees. The assets of this scheme are held separately from those of the company in an independently administered fund.

20. Contingent Liability

The company is in dispute, over payment, with the main contractor in respect of an office development which has been constructed on behalf of EICC Ltd. In the course of the contract the company made regular payments to the contractor on the basis of authorised architects' certificates. However at the year end the company was withholding payments of £276,000 from the contractor in respect of late completion of the project. Discussions are continuing with the contractor, who has raised a counter claim against the company.

Due to the uncertainty of the outcome and settlement of these claims, no provision for any liability has been made in the accounts. The Directors are of the opinion that no provision is required in respect of the counter claim against the company.



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