

Scottish Financial Enterprise
(a company limited by guarantee)

Directors' report and financial statements
31 December 1995

Registered number SC 100000

12



Scottish Financial Enterprise

(a company limited by guarantee)

Directors' report and financial statements

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Scottish Financial Enterprise

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Directors and officers of company

Directors: Sir John C Shaw CBE *Chairman* (appointed 13 March 1995)
Grant Baird *Executive Director*
A Scott Bell (resigned 24 April 1995)
Lyndon Bolton (resigned 24 April 1995)
Hamish N Buchan
Angus Grossart CBE
Eric M Hagman
Gavin G Masterton
Allan Munro
Roy Nicolson (appointed 13 November 1995)
Sir Alick M Rankin CBE (resigned 24 April 1995)
AC Shedden
Charles M Winter CBE (resigned 4 August 1995)

Secretaries: Maclay Murray & Spens

Registered office: 91 George Street
Edinburgh
EH2 3ES
0131-225 6990

Auditors: KPMG
Saltire Court
20 Castle Terrace
EDINBURGH
EH1 2EG

Solicitors: Maclay Murray & Spens
3 Glenfinlas Street
Edinburgh
EH3 6AQ

Bankers: Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Scottish Financial Enterprise

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Chairman's statement

In my first statement as Chairman, as SFE reaches its tenth year, I am proud to note that in many respects 1995 was a record year for the financial community in Scotland, and also for SFE. This performance is all the more impressive at a time of challenge and change. Despite these challenges of cost, capacity, competition and technology, Scotland has maintained its position as the third financial centre in the EU in terms of equities under management. The members of the Associated Scottish Life Offices have funds under management of £110 billion and the specialist fund managers have £40 billion, so the total has reached £150 billion for the first time. The Life Offices have responded to the challenge of new markets by strengthening their international operations in places as far apart as China, Russia and Sweden, and they are well represented in continental Europe. Among the specialist fund managers, we have seen a change of ownership, since the turn of the year, at Dunedin, but the firm has been taken over by a Scottish house, Edinburgh Fund Managers and the existing management team and back office functions have been retained.

In the banking sector, Lloyds TSB Group is now the largest company registered in Scotland, and has enhanced growth prospects. The Clydesdale Bank announced record profits, and the National Australia Group set up a new Life company. Bank of Scotland also announced record profits in a tercentenary year which is a tribute to the continuity amidst change which remains a distinguishing characteristic of the Scottish financial community. The Royal Bank of Scotland reinforced its New England interest by its agreement with the Bank of Ireland to merge Citizens and First NH Bank in New England.

For its part, SFE set a few records too. The total attendance at our two annual dinners in London and Edinburgh, reached a thousand, and so we were able to offer our members substantial opportunities to extend corporate hospitality to their colleagues and customers.

Our core promotion activity has flourished. It is essential that we maintain a high quality of publications in support of our members, so it is gratifying to note that our corporate brochure has won a UK award of excellence from the British Association of Communicators in Business. We have achieved record levels of circulation for our annual Directory of members services, and we have designed and produced on behalf of the Association of European Regional Financial Centres a new pan-European Directory. Finally we have attracted more press and media coverage for the efforts of our members than ever before.

SFE has effectively exercised its role as the voice of the financial community in meetings with Government Ministers (including the Secretary of State for Scotland, Ministers for Industry at the Scottish Office, and the Economic Secretary to the Treasury); Shadow Spokesmen (for Scotland, and the City); and the EU Commissioner for Transport, Neil Kinnock, when the main subject was the Private Finance Initiative.

On public issues, we have ensured that Shadow spokesmen fully appreciate the concerns of our members that plans for devolution should not disadvantage the financial sector. They have responded with a public commitment (yet to receive formal endorsement) that a Labour Government would ensure that Corporation Tax, financial regulation, and macro economic management (including the remit of the Bank of England), operate on the same playing field throughout the UK. Other concerns are still under discussion.

On European Monetary Union, SFE has injected a note of calm into a frenzied debate by focusing on the economic not the political issues; our survey evidence and the conclusions of the debate which we held in November enable us to ensure that the European Commission and the UK Government alike are aware of the views of the influential and authoritative Scottish financial community.

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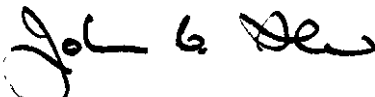
Chairman's statement *(continued)*

In his statement, the Executive Director describes the details of the programme which SFE undertook in 1995. I would simply like to mention the highlights; the publication of the seven point Action Plan, the first such programme endorsed by the sector as a whole; the relaunch of the formal partnership with Scottish Enterprise which centres on the Action Plan; the launch of the Alternative Investment Market with a high level of Scottish involvement encouraged by SFE; the launch of the Advanced Management Programme in Scotland (AMPs) in which SFE played a similar pivotal role; and SFE's award, as the only Scottish winners of the Export Challenge, set by the President of the Board of Trade, of grant funding to reinforce members' efforts in exporting PFI expertise and professional training.

I would like to mention some individual contributions. David Walker, our External Affairs Executive, left after many years service, latterly on secondment to the AIM team of the London Stock Exchange. He joined one of our members, Hodgson Martin, and we wish him well. In 1995, we have been joined by two secondees; one, from The Scottish Office, Paul Allen; and one from Bank of Scotland, Andrew Templeton. The Board is grateful to them both and to their seconding organisations.

There have been significant changes on the Board too. Both Scott Bell and Lyndon Bolton retired in April 1995 and Charles Winter resigned in the Summer. On behalf of the Board and the members of SFE, I would like to acknowledge their distinctive contribution over many years. At the same time we extend a welcome to Roy Nicolson who has accepted an invitation to join the Board; and we hope that we enjoy the benefit of his advice for many years to come. I owe a particular debt of gratitude to Sir Alick Rankin, my predecessor as Chairman, who has left SFE a legacy of a focused programme, determined by the members themselves; and a recognised role as the voice of the financial community on the public issues of the day.

As a result SFE looks forward to its tenth anniversary in good heart, having furthered the interests of the members and registered a number of notable achievements over the past year.



Sir John Shaw CBE
Chairman

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Executive Director's statement

Financial report

I am pleased to report that SFE ended the year with a modest surplus of £2,970 before tax, and with the number of members increased to 226 from 221. We had been able to hold subscriptions unchanged for the fourth successive year, but despite having made a series of reductions in staff and operating costs, we were constrained to make a modest increase in subscriptions for 1995-96 at or below the level of inflation over the period. As a result we expect to be able to maintain our future programme effectively, in support of members' own activity.

Action Plan

In 1995, we published SFE's seven point Action Plan, which was prepared by and for the members, and provides the focus for our programme. We have already made good progress in implementing the plan.

1. *Supplying the UK market for corporate services*

We continue to promote members' services through the circulation of the SFE Directory, which has been referred to in the press as the bible for the financial sector in Scotland. We have reinforced this service by entering the Directory on the Internet, opening up new promotion opportunities for the members.

In February we held the Why Buy Scottish conference, which brought together major buyers and sellers of business services in Scotland. Since then the promotion of corporate services has centred on the Private Finance Initiative. SFE canvassed members and received an overwhelming response. We have introduced our members to the PFI unit at the Scottish Office and the PFI panel in Whitehall. We have arranged workshops for members to meet potential clients in the public sector. Members' interest remains strong, despite significant concerns which our Board has relayed to Government Ministers and departments, and the European Commission.

2. *Encouraging more business overseas*

At the invitation of the Association of European Regional Financial Centres (AERFC) (of which we are currently Treasurers), we designed and produced a new pan-European Directory of Services, which complements our own Directory.

PFI has also been an important element in our export promotion. Under the auspices of the AERFC, we led a delegation to a conference in Turin, the main subject of which was the opportunity provided by the public sector, across the European Union, for private sector finance, an opportunity which is expected to grow if public services are to be maintained without increasing public expenditure.

Finally, on behalf of our members, we entered the Export Challenge set by the President of the Board of Trade at the DTI, and were the only Scottish winners. The award will provide much needed funds to develop the European market for Scottish PFI expertise, and to export the internationally regarded professional training provided by our bankers' and accountants' Institutes. SFE's application was supported by both the Chartered Institute of Bankers in Scotland, and the Institute of Chartered Accountants of Scotland.

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Executive Director's statement *(continued)*

Our overseas programme included visits of ministers, officials, and journalists from Hong Kong, Australia, New Zealand, Canada, Turkey, Romania, Israel and Sweden, and from the European Bank of Reconstruction and Development, and the European Investment Bank. Most ambitious of all was the Conference held in January 1996 on the Baltic Republics in Transition. The conference was arranged on the back of voluminous and authoritative research, conducted and written up in 1995 by our research consultant, Tony O'Rourke, and published in house by our publications manager, Linda Lawson.

Both report and conference were very well received; similar research will be conducted in Scandinavia in 1996.

3. *Improving access to finance for small companies*

The highlight of the year in the field of small company finance was the launch by one of our members (the London Stock Exchange, no less) of the Alternative Investment Market (AIM). AIM allows smaller companies to raise smaller amounts of capital than the main market. In 1995 over 100 companies joined AIM, and the number of Scottish companies joining was much higher than expected given that the number of Scottish companies on the main market has historically been disproportionately low. At the same time the opportunity to become involved in AIM as investors, Nominated Advisers and Nominated Brokers has extended the market for SFE members to develop specialist expertise not just for Scotland but the UK as a whole. This special involvement, (of Scottish companies, investors and advisers, in designing and promoting AIM) would not have happened without the tripartite partnership led by the Stock Exchange in Glasgow and supported by Scottish Enterprise and SFE.

Our members have worked with Scottish Enterprise in developing, in addition to AIM, a range of financial instruments for Small & Medium Enterprises, whether loan (the Small Business Loan Scheme, which caps interest rates; and the European Investment Fund which guarantees private sector return); or equity (Local Investment Network Company matching individual firms with informal investors seeking a direct role in invested companies; and formal venture capital provided by the Scottish Equity Partnership between Scottish Enterprise and financial institutions).

4. *Attracting financial services to Scotland*

SFE has helped Locate in Scotland and the local enterprise companies to shape their campaign to attract more financial services companies to Scotland. We have identified leads, and have worked directly with members on a number of successful inward investment projects, including the TSB Phone Bank, and the Royal Bank of Scotland joint venture, Advanta.

5. *Establishing a world class Advanced Management Programme*

At the Annual dinner in November, the Chairman announced that SFE had established the Advanced Management Programme in Scotland (AMPs). The programme has a unique faculty from Scotland and the UK, from Harvard, MIT, Michigan and INSEAD. It will run for the first time from 16-28 June 1996. The AMPs Advisory Council will be chaired by Sir Bruce Pattullo. All surpluses from the programme will be devoted to research in management education in Scotland and will be distributed under the guidance of a Research Advisory Board, chaired by Sir William Fraser. This initiative realises an ambition long

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Executive Director's statement *(continued)*

held by SFE and by our Chairman in particular. Peter Mackay CB is the Executive Director of the programme and we wish him well in delivering AMPs.

6. *Reviewing telecommunications*

SFE has had exploratory discussions with Scottish Enterprise about the best means of encouraging state of the art provision. The Scottish Enterprise strategy stresses the importance of telecommunications in maintaining a competitive business infrastructure. In June 1995 SFE responded on behalf of members to OFTEL's consultative document, "A Framework for Effective Competition".

7. *Improving our information base*

We are always refining and improving the statistics we publish ourselves, such as the quarterly SFE Facts, and the annual Funds Under Management Report which, in 1995 as in previous years, gave rise to favourable press coverage. We have also had discussions with British Invisibles, the Bank of England, and The Scottish Office, with the object of providing more accurate, disaggregated data for the financial sector, and particularly for Scotland.

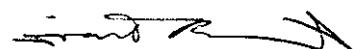
Partnership with Scottish Enterprise

The first six points of the Action Plan find a specific place in the Scottish Enterprise strategy since they promote economic development at the same time as furthering the interests of the members. It was appropriate therefore that the formal partnership between SFE and Scottish Enterprise was renewed in February with ministerial backing.

As a result in the course of 1995, we have received support from Scottish Enterprise in promoting AIM, preparing the Export Challenge, and presenting the conference on the Baltic Republics. We have already had intelligence that, in 1996, research in Scandinavia will also be supported. Most significant of all was the grant of £200,000 in four annual instalments to the Advanced Management Foundation for the development of AMPs, a programme which SFE has pioneered and to which SFE is also contributing.

Conclusion

I could not end this statement without mentioning the debt of gratitude the Board and the staff owe to Sir John Shaw CBE, who has returned to SFE as Chairman and whose vision guides us for the years ahead. Some of the projects which he set in motion as Executive Director such as AIM and AMPs are now bearing fruit, and I trust that the next ten years will be as successful for SFE as its first decade.



Grant Baird
Executive Director

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Directors' report

The directors present their report and the audited financial statements for the year to 31 December 1995.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the surplus or deficit for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements 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 financial statements comply with the Companies Act 1985. The directors 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.

Principal activities

The main activity of the enterprise is to promote the Scottish financial community and its interests at home and abroad, showing the scale, range and quality of its services.

Directors

Sir John Shaw was appointed director on 13 March 1995. Mr Roy Nicolson was appointed director on 13 November 1995, and offers himself for re-election at the AGM. Sir Alick Rankin CBE, Mr A Scott Bell and Mr Lyndon Bolton resigned as directors on 24 April 1995. Mr Charles M Winter CBE resigned on 4 August 1995. The directors who retire by rotation are Mr Eric Hagman, Mr Allan Munro and Mr AC Shedden and they offer themselves for re-election by the members at the AGM.

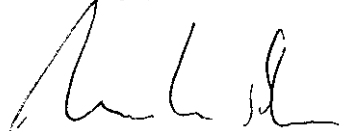
Tangible fixed assets

Information relating to tangible fixed assets is given in note 9 to the financial statements.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By Order of the Board



Maclay Murray & Spens
Secretaries

28 March 1996



Saltire Court
20 Castle Terrace
EDINBURGH
EH1 2EG

Report of the auditors to the members of Scottish Financial Enterprise (a company limited by guarantee)

We have audited the financial statements on pages 10 to 15.

Respective responsibilities of directors and auditors

As described on page 8 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1995 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

28 March 1996

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Income and expenditure account for the year to 31 December 1995

	Notes	1995		1994	
		£	£	£	£
Turnover					
Membership subscriptions and contributions		516,510		566,437	
Conferences and other events		63,473		70,235	
		<u>579,983</u>		<u>636,672</u>	
Other income					
Fees receivable and other income		16,461		21,615	
Interest receivable on short term deposit		18,535		16,212	
		<u>614,979</u>		<u>674,499</u>	
Administrative expenses					
Direct costs of conferences and other events		65,129		71,286	
Employment and personnel	4-5	208,209		261,404	
Property, equipment and administration		144,850		146,353	
Promotions, publications and advertising		164,808		162,107	
Travel and subsistence		27,781		20,631	
		<u>(610,777)</u>		<u>(661,781)</u>	
Amounts written off investments	10	(1,232)		-	
Surplus on ordinary activities before taxation	7	2,970		12,718	
Taxation	8	(1,405)		(3,471)	
Surplus for the financial year		1,565		9,247	
Surplus brought forward		52,095		42,848	
Surplus carried forward		<u>53,660</u>		<u>52,095</u>	

Other than the surplus for the year there have been no other recognised gains or losses.
The surplus for the year relates wholly to continuing activities.

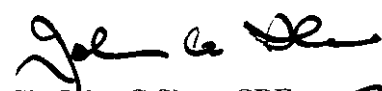
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Balance sheet at 31 December 1995

	Notes	1995		1994	
		£	£	£	£
Fixed assets					
Tangible assets	9		5,897		12,409
Investment	10		-		992
			<u>5,897</u>		<u>13,401</u>
Current assets					
Debtors	11	36,909		16,912	
Cash at bank and in hand		171,817		143,147	
		<u>208,726</u>		<u>160,059</u>	
Creditors: amounts falling due within one year	12	<u>(81,607)</u>		<u>(39,704)</u>	
Net current assets			<u>127,119</u>		<u>120,355</u>
Total assets less current liabilities			<u>133,016</u>		<u>133,756</u>
Accruals and deferred income					
Members' subscriptions paid in advance			<u>(79,356)</u>		<u>(81,661)</u>
Net assets			<u>53,660</u>		<u>52,095</u>
Reserves					
Income and expenditure account			<u>53,660</u>		<u>52,095</u>

The financial statements were approved by the board of directors on 28 March 1996 and were signed on its behalf by:


Sir John C Shaw CBE
Chairman

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Notes

(forming part of the financial statements)

1. Company status

The company is limited by guarantee of the members and does not have a share capital. Under paragraph VI of the Memorandum of Association, each member (excluding associates) undertakes to contribute up to £100 in the event of the company being wound up.

2. Taxation status

The company is taxed as a trade association on any surplus of income over allowable expenditure. Accordingly, membership subscriptions and contributions may be claimed as a trading expense allowable for tax by members.

3. Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under historical cost accounting rules.

Turnover

Turnover represents membership subscriptions and income from events organised by the company.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment	3 years
Furniture, fittings and equipment	5 years

Leases and rents

Rentals under operating leases are charged to income and expenditure account in the year in which they arise.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against revenue represents the contribution payable to the scheme in respect of the accounting period.

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Notes (continued)

4. Employment and personnel

Included in this heading are the following staff costs:

	1995 £	1994 £
<i>Employee costs (including directors)</i>		
Wages and salaries	154,936	192,572
Social security costs	14,956	16,820
Other pension costs	5,093	10,211
	<hr/>	<hr/>
	174,985	219,603
	<hr/>	<hr/>
<i>Average number of employees by activity</i>		
	No.	No.
Administration	6	8
	<hr/>	<hr/>

In addition payments in respect of staff on secondment totalled £16,123 (1994 - £10,472) and to special advisers and consultants £12,634 (1994 - £11,359).

Pension contributions

The company contributes to a defined contribution pension scheme for the benefit of full-time employees aged over 21. The pension contributions charged in the accounts for the year amounted to £5,093 (1994 - £10,211).

5. Directors' emoluments

The executive and highest paid director received £80,000 (1994 - £23,030). The previous executive and highest paid director received £54,375 in 1994 to the date of his resignation. The chairman and other directors received no remuneration during the year (1994 - £Nil).

6. Directors' material interests in contracts

Details of a transaction in which a director had a material interest are given at note 10 to the financial statements.

7. Surplus on ordinary activities before taxation

	1995 £	1994 £
This is stated after charging		
Depreciation of tangible fixed assets	8,607	9,582
Loss on disposal of computer	129	-
Hire of other assets - operating leases	51,000	51,000
Auditors' remuneration	3,200	3,200
Loss on investment	1,232	-
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Notes (continued)

8. Taxation

	1995 £	1994 £
Corporation tax at 25% (1994 - 25%)	1,405	3,471

9. Tangible fixed assets

	Furniture, fittings and equipment £	Computer equipment £	Total £
<i>Cost</i>			
At 31 December 1994	28,216	54,889	83,105
Additions	-	2,345	2,345
Disposals	-	(6,842)	(6,842)
At 31 December 1995	28,216	50,392	78,608
<i>Depreciation</i>			
At 31 December 1994	22,246	48,450	70,696
Charge for year	2,172	6,435	8,607
Disposals	-	(6,592)	(6,592)
At 31 December 1995	24,418	48,293	72,711
<i>Net book amount</i>			
At 31 December 1995	3,798	2,099	5,897
At 31 December 1994	5,970	6,439	12,409

10. Fixed asset investment

	1995 £
<i>Cost</i>	
At 31 December 1994	
Addition in year	3,000
Disposal	3,000
	(6,000)
At 31 December 1995	-
<i>Amount provided</i>	
At 31 December 1994	
Released on disposal	2,008
	(2,008)
At 31 December 1995	-
<i>Net book amount</i>	
At 31 December 1995	-
At 31 December 1994	
	992

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Notes (continued)

10. Fixed asset investment (continued)

At 31 December 1994 the company held 30% of the ordinary shares in World Business Forum Limited, a company registered in Scotland. In 1991 Scottish Financial Enterprise which then held 60% had conveyed 3,000 £1 ordinary shares (representing 30%) at par value to Professor JC Shaw, its immediately prior Executive Director, retaining a right of pre-emption. During 1995 in preparation for the liquidation of World Business Forum Limited these shares were reacquired by Scottish Financial Enterprise from the Chairman at that same price. World Business Forum Limited subsequently ceased trading and a final distribution of 46p received for each £1 share held gave rise to a loss in Scottish Financial Enterprise of £1,232 on its then net book amount of £3,992. Professor JC Shaw was a director of World Business Forum Limited.

11. Debtors: amounts falling due within one year

	1995 £	1994 £
Other debtors	22,205	6,124
Prepayments and accrued income	14,704	10,788
	<hr/>	<hr/>
	36,909	16,912
	<hr/>	<hr/>

12. Creditors: amounts falling due within one year

	1995 £	1994 £
<i>Other creditors including taxation and social security:</i>		
Corporation tax	1,405	3,471
Other taxes and social security	10,184	6,689
Other creditors and accruals	70,018	29,544
	<hr/>	<hr/>
	81,607	39,704
	<hr/>	<hr/>

13. Commitments

At the end of the financial year the company had annual commitments amounting to £51,000 (1994 - £51,000) under operating leases which expire in over five years, in respect of property.