

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

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**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 1996 which were approved at a meeting on 25 February 1997.

PRINCIPAL ACTIVITY

The principal activity of the Company continued to be that of an investment company. The main trading subsidiaries are Brown Shipley Venture Managers Limited which is an investment fund manager and Private Equity Managers Limited which is an investment company. No change is expected in these activities.

REVIEW OF BUSINESS

The consolidated profit and loss account for the year is set out on page 5.

On 19 March 1996, the Company transferred part of its economic interest in the founder partners' interests in Brown Shipley Development Capital Fund, The Second Brown Shipley Fund, and The Second Brown Shipley Fund II to its then parent company, Brown, Shipley & Co. Limited, for a total consideration of £500,032, representing the fair market value of these investments at that date. A net profit of £499,905 was realised as a result of this transaction.

On 2 April 1996, the executive directors, their interests and the Brown Shipley Venture Managers Pension Scheme acquired the whole of the issued ordinary share capital of Brown Shipley Development Capital Limited from Brown, Shipley & Co. Limited.

On the same date, the Company acquired the whole of the issued share capital of Private Equity Managers Limited, an investment company. This has been accounted for as an acquisition in accordance with Financial Reporting Standard No. 6. Details of the fair value of net assets acquired and consideration paid are set out in note 18 to the financial statements.

On 20 December 1996, the Company acquired 2,450 'A' ordinary shares of Brown Shipley Venture Managers Limited, an investment fund manager, representing 49% of its issued share capital. Details of the fair value of net assets acquired and consideration paid are set out in note 18 to the financial statements. The Company previously owned 2,550 'B' ordinary shares representing 51% of the issued share capital of Brown Shipley Venture Managers Limited which was deemed a subsidiary undertaking for consolidation purposes.

The directors had previously disclosed direct or beneficial interests in the shares of the two companies acquired as disclosed in those subsidiary companies accounts.

The directors did not have any direct or beneficial interest in the shares of subsidiary undertakings at 31 December 1996.

Both the level of business and the year end financial position remain satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

DIRECTORS' REPORT (continued)

DIVIDENDS

Dividends paid during the year are set out in note 6.

The directors recommend the payment of a final dividend of £49,388 for the year ended 31 December 1996.

DIRECTORS DURING THE YEAR

D J Wills (Managing Director)
M J Hallala
C R F Kemp
A D Moye
R D Parker
R M Mansell-Jones (Resigned 2 April 1996)
R V Thompson (Resigned 2 April 1996)

The directors received no remuneration from the Company during the year.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Group maintains a Directors' and Officers' Liability Insurance policy in respect of the directors and officers.

DIRECTORS' INTERESTS

The directors who held office at 31 December 1996 had direct or beneficial interests in the share capital of Brown Shipley Development Capital Limited as follows:

	As at 31.12.96 Ordinary shares of £1 each fully paid	As at 31.12.95 Ordinary shares of £1 each fully paid
D J Wills	48,000	-
C R F Kemp	43,000	-
R D Parker	30,000	-
M J Hallala	9,000	-
A D Moye	10,000	-

In addition, the Brown Shipley Venture Managers Pension Scheme, of which the directors are members, owned 60,000 Ordinary shares of £1 each in Brown Shipley Development Capital Limited.

The directors' previous interests in the shares of subsidiary companies are disclosed in those subsidiary companies' accounts.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

DIRECTORS' REPORT (continued)

DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1996. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

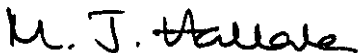
AUDITORS

On 2 April 1996 Deloitte & Touche resigned as auditors to the company.

On the same day Coopers & Lybrand of 1 Embankment Place, London WC2N 6NN were appointed as the new auditors of the company.

Coopers & Lybrand have expressed their willingness to continue in office as auditors.

By order of the Board



M J HALLALA
Company Secretary

Founders Court
Lothbury
London EC2R 7HE

25 February 1997

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

	NOTE	1996 £	1995 £
INCOME FROM FIXED ASSET INVESTMENTS			
Continuing operations		1,935,475	1,932,687
Acquisitions		<u>481,853</u>	<u>-</u>
		2,417,328	1,932,687
DIRECTORS' FEES			
Continuing operations		158,320	144,963
ADMINISTRATIVE EXPENSES			
Continuing operations		(1,236,621)	(1,148,247)
Acquisitions		<u>(416,531)</u>	<u>-</u>
NET PROFIT ON SALE OF INVESTMENT		499,905	6,338
OPERATING PROFIT			
Continuing operations		1,357,079	935,741
Acquisitions		<u>65,322</u>	<u>-</u>
TOTAL OPERATING PROFIT		1,422,401	935,741
INTEREST RECEIVABLE AND SIMILAR INCOME			
Bank interest		<u>20,049</u>	<u>40,595</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	1,442,450	976,336
Tax on profit on ordinary activities	4	<u>(161,365)</u>	<u>(214,449)</u>
PROFIT AFTER TAXATION		1,281,085	761,887
Minority interests	17	<u>(3,792)</u>	<u>(467,502)</u>
PROFIT FOR THE FINANCIAL YEAR		1,277,293	294,385
Dividends (including non-equity)	6	<u>(1,627,671)</u>	<u>(200,000)</u>
(LOSS)/PROFIT TRANSFERRED TO RESERVES		<u>£(350,378)</u>	<u>£ 94,385</u>

The Group has no recognised gains or losses for the current and preceding financial years other than those included in the profits above and, therefore, no separate statement of total recognised gains and losses has been prepared.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

The notes on pages 10 to 22 form part of these financial statements.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

CONSOLIDATED BALANCE SHEET

at 31 December 1996

	NOTE	1996 £	1995 £		
FIXED ASSETS					
Intangible assets	7	1,105,168	-		
Tangible assets	8	107,414	87,655		
Investments	9	<u>8,637</u>	<u>8,764</u>		
		<u>1,221,219</u>	<u>96,419</u>		
CURRENT ASSETS					
Debtors: amounts falling due within one year	11	316,741	433,247		
Cash at bank and in hand		<u>219,876</u>	<u>385,118</u>		
		536,617	818,365		
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	12	<u>(1,465,708)</u>	<u>(318,816)</u>		
NET CURRENT (LIABILITIES)/ASSETS		<u>(929,091)</u>	<u>499,549</u>		
TOTAL ASSETS LESS CURRENT LIABILITIES		292,128	595,968		
Creditors: amounts falling due after one year	12	(77,500)	-		
Provisions for liabilities and charges	13	<u>(14,627)</u>	<u>-</u>		
NET ASSETS		<u>£ 200,001</u>	<u>£595,968</u>		
CAPITAL AND RESERVES					
Called-up share capital	14	200,001	100,000		
Profit and loss account	15	-	350,378		
Equity shareholders' funds		<table border="1"><tr><td>200,000</td></tr></table>	200,000	<table border="1"><tr><td>450,378</td></tr></table>	450,378
200,000					
450,378					
Non-equity shareholders' funds		<table border="1"><tr><td>1</td></tr></table>	1	<table border="1"><tr><td>-</td></tr></table>	-
1					
-					
TOTAL SHAREHOLDERS' FUNDS		200,001	450,378		
Minority interests - equity	17	<u>-</u>	<u>145,590</u>		
		<u>£ 200,001</u>	<u>£595,968</u>		

The financial statements on pages 5 to 22 were approved by the Board on 25 February 1997 and were signed on its behalf by:

D J Wills) *David M Wills*
) Directors
M J Hallala) *M. J. Hallala*

The notes on pages 10 to 22 form part of these financial statements.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

COMPANY BALANCE SHEET

at 31 December 1996

	NOTE	1996 £	1995 £
FIXED ASSETS			
Investments	9	8,637	8,764
Investments in subsidiary undertakings	10	<u>1,113,838</u>	<u>2,552</u>
		<u>1,122,475</u>	<u>11,316</u>
CURRENT ASSETS			
Debtors: amounts falling due within one year	11	247,515	318,271
Cash at bank and in hand		<u>23,774</u>	<u>129,622</u>
		271,289	447,893
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	12	(1,115,295)	(8,831)
NET CURRENT (LIABILITIES)/ASSETS		(844,006)	<u>439,062</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		278,469	450,378
Creditors: amounts falling due after one year	12	(77,500)	—
NET ASSETS		<u>£200,969</u>	<u>£450,378</u>
CAPITAL AND RESERVES			
Called-up share capital	14	200,001	100,000
Profit and loss account	15	968	350,378
Equity shareholders' funds		<div style="border: 1px solid black; padding: 2px;">200,968</div>	<div style="border: 1px solid black; padding: 2px;">450,378</div>
Non-equity shareholders' funds		<div style="border: 1px solid black; padding: 2px;">1</div>	<div style="border: 1px solid black; padding: 2px;">-</div>
TOTAL SHAREHOLDERS' FUNDS	16	<u>£ 200,969</u>	<u>£450,378</u>

The financial statements on pages 5 to 22 were approved by the Board on 25 February 1997 and were signed on its behalf by:

D J Wills) *David Wills*
) Directors
M J Hallala) *M. J. Hallala*

The notes on pages 10 to 22 form part of these financial statements.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1996

	NOTE	1996 £	1995 £
OPERATING ACTIVITIES			
Net cash inflow from continuing operating activities	1	1,397,434	875,666
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		20,984	38,793
Dividends paid		(1,578,283)	(200,000)
Dividends paid to minorities		(146,932)	(437,924)
Net cash outflow from returns on investments and servicing of finance		(1,704,231)	(599,131)
TAXATION			
UK corporation tax paid		(188,763)	(171,756)
UK corporation tax repaid		317,009	172,917
Tax on franked investment income		(392,338)	(278,933)
Total taxation paid		(264,092)	(277,772)
INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(64,736)	(68,378)
Sale of tangible fixed assets		12,826	21,765
Sale of fixed assets investments		500,032	103,125
Purchase of subsidiary undertakings	2	(42,476)	—
Net cash inflow from investing activities		405,646	56,512
Net cash (outflow)/inflow before financing		(165,243)	55,275
FINANCING			
Issue of shares		—1	—
Net cash inflow from financing		—1	—
(DECREASE)/INCREASE IN CASH	3	£(165,242)	£55,275

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1996

1. Reconciliation of operating profit to net cash
inflow from operating activities

	1996 £	1995 £
Operating profit from continuing operations	1,422,401	935,741
Profit on sale of tangible fixed assets	(9,720)	(18,498)
Profit on sale of investments	(499,905)	(6,338)
Amortisation of intangible fixed assets	7,810	-
Depreciation on tangible fixed assets	41,871	27,192
Increase in prepayments	(8,696)	(29,967)
Decrease/(increase) in other debtors	19,386	(27,266)
Increase/(decrease) in trade creditors	67,770	(23,655)
Decrease/(increase) in other taxation and social security	(4,502)	2,386
Increase in other creditors	147,817	-
Increase in accruals	<u>213,202</u>	<u>16,071</u>
Net cash inflow from operating activities	<u>£1,397,434</u>	<u>£875,666</u>

2. Analysis of the net outflow of cash in respect of the
purchase of subsidiary undertakings

	1996 £	1995 £
Cash consideration	50,000	-
Cash at bank and in hand acquired	(7,524)	-
	<u>£42,476</u>	<u>-</u>

3. Analysis of changes in cash

	1996 £	1995 £
Balance at 1 January	385,118	329,843
Net cash (outflow)/inflow	(165,242)	<u>55,275</u>
Balance at 31 December	<u>£219,876</u>	<u>£385,118</u>

This balance is shown as cash at bank and in hand in the consolidated balance sheet.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 1996**

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared on the historical cost convention and in accordance with applicable accounting standards in the United Kingdom, except for non compliance with Financial Reporting Standard No. 2 as explained below.

(b) Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 1996. The results of subsidiaries acquired are included in the consolidated profit and loss accounts from the date control passes.

The accounting reference dates of Brown Shipley Venture Managers Limited, Private Equity Managers Limited, and PEM Management Limited have changed from 31 March to 31 December.

The 1995 consolidated comparative information has been presented for the first time.

(c) Limited partnership funds

The Group consolidates its attributable proportion, as a limited partner, of the assets and liabilities and income and expenditure of the limited partnership funds which it manages as a general partner. In the light of the above, advantage has been taken of the exemption in Regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993, and the accounts of the limited partnership' funds have not been appended to these accounts.

Such funds fall within the definition of subsidiary undertakings contained in the Companies Act 1985, as amended by the Companies Act 1989, and Financial Reporting Standard No. 2. The Act and the Standard require the consolidation of all subsidiary undertakings. The four limited partnership funds, Brown Shipley Development Capital Fund, The Second Brown Shipley Fund, The Second Brown Shipley Fund II, and The Third Private Equity Fund, the first three in which the Company has invested and which are all managed by companies within the Group, technically fall within the definition of subsidiary undertakings. However, the Directors do not consider the accounts would present a true and fair view if these funds were to be fully consolidated with the interests of the other investors accounted for as minority interests. The Directors have not accounted for these funds as subsidiary undertakings as they consider the accounts would not give a true and fair view if the assets of the other limited partners were to be consolidated with the assets of the Group.

The effect of not consolidating in full the net assets of these funds amounted to £35,273,983 with related minority interests of £35,273,983.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is retained as an asset and eliminated by amortisation through the profit and loss account over its useful economic life of ten years.

(e) Profit and loss account

Income and expenses are accounted for in the profit and loss account on an accruals basis.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Tangible fixed assets

Fixed assets are stated at cost less depreciation. Depreciation is calculated on a straight line basis at the following rates:

Motor cars	25% per annum
Furniture and equipment	20% per annum

(g) Investments

Unlisted investments are valued at cost less provisions for any permanent diminution in value.

(h) Operating lease

The annual rentals are charged to operating profit on a straight line basis over the lease term.

(i) Deferred taxation

Deferred taxation is provided using the liability method to the extent that it is probable a liability will crystallise. No provision is made for any deferred tax asset.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1996 £	1995 £
Profit on ordinary activities before taxation is stated after crediting:		
Profit on disposal of tangible fixed assets	<u>9,720</u>	<u>18,498</u>
And after charging:		
Amortisation of intangible fixed assets	7,810	-
Depreciation of tangible fixed assets	41,871	27,192
Auditor's remuneration for:		
Audit (Company £6,170; 1995: £2,500)	16,267	7,821
Other services to the Company and its subsidiaries	<u>26,500</u>	<u>3,350</u>

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

3. EMPLOYEES' AND DIRECTORS' EMOLUMENTS

The directors received no remuneration from the Company during the year. The directors were employed and remunerated by Brown Shipley Venture Managers Limited as follows:

	1996 £	1995 £
Aggregate remuneration including benefits in kind	907,477	575,602
Pension contributions	<u>84,158</u>	<u>75,783</u>
	<u>£991,635</u>	<u>£651,385</u>
Included in aggregate remuneration above (excluding pension contributions):		
Remuneration of Chairman and highest paid director	<u>£232,135</u>	<u>£153,237</u>

The number of directors (including the Chairman and the highest paid director) who received remuneration within the following ranges was:

	Number of Directors	Number of Directors
£0 - £5,000	-	2
£90,001 - £95,000	-	1
£95,001 - £100,000	-	1
£100,001 - £105,000	-	1
£120,001 - £125,000	-	1
£150,001 - £155,000	-	1
£155,001 - £160,000	2	-
£175,001 - £180,000	1	-
£185,001 - £190,000	1	-
£230,001 - £235,000	1	-

Staff costs of the Group, including directors' emoluments, who were all employed by Brown Shipley Venture Managers Limited, were:

	1996 £	1995 £
Salaries	991,444	653,467
Social security costs	104,044	60,738
Other pension costs	<u>96,908</u>	<u>89,320</u>
Aggregate remuneration	<u>£1,192,396</u>	<u>£803,525</u>

The average number of persons employed by the Group in the United Kingdom during the year was 8 (31.12.95: 8).

Brown Shipley Venture Managers Limited operates a defined contribution pension scheme for the benefit of all directors and employees, subject to eligibility. The Company contributes 15% of gross salary to the scheme.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1996 £	1995 £
Tax on capital profits	-	5,910
UK Corporation Tax at an effective rate of 24%	(9,568)	252,525
Tax credits on franked investment income	180,306	53,064
Prior year adjustment	(24,000)	(97,050)
Transfer to deferred taxation	<u>14,627</u>	<u>-</u>
	<u>£161,365</u>	<u>£214,449</u>

5. PROFIT FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year was £1,278,261 (1995 : £294,385).

6. DIVIDENDS

	1996 £	1995 £
Dividends on equity shares:		
Ordinary - interim of £8.50 per share (1995: £2)	850,283	200,000
Ordinary - interim of 90p per share (1995: Nil)	180,000	-
Ordinary - final proposed of 24.7p per share	49,388	-
Dividends on non-equity shares:		
Fixed dividend entitlement (see note 14)	<u>548,000</u>	<u>-</u>
	<u>£1,627,671</u>	<u>£200,000</u>

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

7. INTANGIBLE FIXED ASSETS

	Goodwill £
The Group	
Cost:	
At 1 January 1996	-
Additions	<u>1,112,978</u>
At 31 December 1996	<u>1,112,978</u>
Amortisation:	
At 1 January 1996	-
Charge for the year	<u>7,810</u>
At 31 December 1996	<u>7,810</u>
Net book value:	
At 31 December 1996	<u>£1,105,168</u>
At 31 December 1995	<u>£ -</u>

8. TANGIBLE FIXED ASSETS

Group	Motor Vehicles £	Furniture & Equipment £	Total £
At cost 1 January 1996	128,403	47,093	175,496
Additions during the period	56,732	8,004	64,736
Disposals	(42,122)	(2,911)	(45,033)
At cost 31 December 1996	<u>143,013</u>	<u>52,186</u>	<u>195,199</u>
Depreciation 1 January 1996	(52,931)	(34,910)	(87,841)
Charge for the period	(33,345)	(8,526)	(41,871)
Disposals	<u>39,016</u>	<u>2,911</u>	<u>41,927</u>
Depreciation 31 December 1996	(47,260)	(40,525)	(87,785)
Net book value 31 December 1996	<u>£ 95,753</u>	<u>£ 11,661</u>	<u>£ 107,414</u>
Net book value 31 December 1995	<u>£ 75,472</u>	<u>£ 12,183</u>	<u>£ 87,655</u>

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

9. FIXED ASSET INVESTMENTS

Group and Company

	1996 £	1995 £
Shares in unlisted companies	8,574	8,574
Brown Shipley Development Capital Fund	24	119
The Second Brown Shipley Fund	<u>39</u>	<u>71</u>
	<u>£8,637</u>	<u>£8,764</u>

The investments listed above are shown at their net book value after eliminating any specific provisions against these investments.

The directors' valuation of unlisted investments, being an investment in Drallim Industries Limited, was in excess of book value.

The movement during the year was as follows:

	1996 £	1995 £
At 1 January 1996	8,764	105,551
Disposals at cost	-	(96,787)
Provisions	(127)	-
At 31 December 1996	<u>£8,637</u>	<u>£ 8,764</u>

There are no holdings included in the unlisted investments in excess of 10% of the issued share capital of any class of the investee company.

On 19 March 1996, the Company transferred part of its economic interest in the founder partners' interests in Brown Shipley Development Capital Fund, The Second Brown Shipley Fund, and The Second Brown Shipley Fund II to its then parent company, Brown, Shipley & Co. Limited, for a total consideration of £500,032, representing the fair market value of these investments at that date. A net profit of £499,905 was realised as a result of this transaction.

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

10. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Company

	Subsidiary Undertakings £
Cost	
At 1 January 1996	2,552
Additions	<u>1,111,286</u>
At 31 December 1996	<u>1,113,838</u>
Amounts written off:	
At 1 January and 31 December 1996	—
Net book value 31 December 1996	<u>£1,113,838</u>
Net book value 31 December 1995	<u>£ 2,552</u>

	Country of Registration	Holding	% of Class
Brown Shipley Venture Managers Limited (Investment Fund Manager)	England and Wales	2,550 £1 'B' Ord Shares 2,450 £1 'A' Ord Shares	100% 100%
Private Equity Managers Limited (Investment Company)	England and Wales	2,700 £1 Ord Shares	100%
PEM Management Limited (Investment Fund Manager)	England and Wales	5,000 £1 Ord Shares	100%
BSD Nominees Limited (Nominee Company)	England and Wales	2 £1 Ord Shares	100%

All of the above companies operated in their country of operation. BSD Nominees Limited remained dormant during the year.

On 2 April 1996, the Company acquired the whole of the share capital of Private Equity Managers Limited (see note 18).

On 20 December 1996, the Company acquired the 'A' Ordinary shares representing 49% of the issued share capital of Brown Shipley Venture Managers Limited (see note 18).

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

11. DEBTORS

	Group 1996 £	Group 1995 £	Company 1996 £	Company 1995 £
Amounts falling due within one year:				
Amount due from group undertakings	-	-	52,892	-
Corporation tax recoverable	212,030	317,009	193,935	317,009
Prepayments and accrued income	46,857	38,161	576	668
Other debtors	<u>57,854</u>	<u>78,077</u>	<u>112</u>	<u>594</u>
	<u>£316,741</u>	<u>£433,247</u>	<u>£247,515</u>	<u>£318,271</u>

12. CREDITORS

	Group 1996 £	Group 1995 £	Company 1996 £	Company 1995 £
Amounts falling due within one year:				
Unsecured loan notes	77,500	-	77,500	-
Trade creditors	81,963	14,193	-	-
Amounts owed to group undertakings	-	-	40,000	-
Corporation tax payable	8,436	230,769	-	-
Other taxation and social security	2,550	7,052	-	-
Other creditors	942,817	-	930,953	-
Accruals	303,054	66,802	17,454	8,831
Dividends payable	<u>49,388</u>	<u>-</u>	<u>49,388</u>	<u>-</u>
	<u>£1,465,708</u>	<u>£318,816</u>	<u>£1,115,295</u>	<u>£8,831</u>

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

12. CREDITORS (continued)

	Group 1996 £	Group 1995 £	Company 1996 £	Company 1995 £
Amounts falling due after one year:				
Unsecured loan notes	<u>£77,500</u>	<u>£-</u>	<u>£77,500</u>	<u>£-</u>

The unsecured loan notes were issued on 20 December 1996 in connection with the acquisition of shares in Brown Shipley Venture Managers Limited.

The unsecured loan notes are repayable in two equal tranches on 31 December 1997 and 30 April 1998 and are entitled to quarterly interest at a rate of 6% per annum.

13. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

Deferred taxation provided in the financial statements is as follows:

	Group 1996 £	Group 1995 £	Company 1996 £	Company 1995 £
Other timing differences	<u>14,627</u>	<u>-</u>	<u>-</u>	<u>-</u>

There is no unprovided amount.

14. CALLED UP, ALLOTTED AND FULLY PAID SHARE CAPITAL

	1996	1995
Authorised:		
250,000 Ordinary Shares of £1 each	£250,000	£250,000
1 Preference Share of £1 each	<u>1</u>	<u>-</u>
	<u>£250,001</u>	<u>£250,000</u>
Allotted, called up and fully paid:		
200,000 Ordinary Shares of £1 each	£200,000	£100,000
1 Preference Share of £1 each	<u>1</u>	<u>-</u>
	<u>£200,001</u>	<u>£100,000</u>

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

14. CALLED UP, ALLOTTED AND FULLY PAID SHARE CAPITAL (continued)

The preference share was issued to Brown, Shipley and Co. Limited on 2 April 1996 and shall be redeemed at par by the Company on the business day immediately following the sale of the Company's investment in Drallim Industries Limited or, if no sale occurs, 31 March 1998. The share was entitled to a fixed dividend entitlement which was paid during the year and has a conditional entitlement to a further dividend of 50% of any profit made on the sale of the Company's investment in Drallim Industries Limited.

Details of the Company's share issue to acquire Private Equity Managers Limited are set out in note 18.

15. PROFIT AND LOSS ACCOUNT

	Group 1996 £	Group 1995 £	Company 1996 £	Company 1995 £
Balance at 1 January 1996	350,378	255,993	350,378	255,993
Profit for the financial year	1,277,293	294,385	1,278,261	294,385
Dividends	(1,627,671)	(200,000)	(1,627,671)	(200,000)
Balance at 31 December 1996	£ -	£ 350,378	£ 968	£ 350,378

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 1996 £	Group 1995 £	Company 1996 £	Company 1995 £
Profit for the financial year	1,277,293	294,385	1,278,261	294,385
Dividends	(1,627,671)	(200,000)	(1,627,671)	(200,000)
Shares issued in the year	100,001	-	100,001	-
Net addition to shareholders' funds	(250,377)	94,385	(249,409)	94,385
Opening shareholders' funds	450,378	355,993	450,378	355,993
Closing shareholders' funds	£200,001	£450,378	£ 200,969	£450,378

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

17. MINORITY INTERESTS

	1996 £	1995 £
At 1 January 1996	145,590	116,012
Profit and loss account	3,792	467,502
Dividends paid on equity shares	(146,932)	(437,924)
Purchase of equity minority interest	(2,450)	—
Equity minority interests at 31 December 1996	£ —	£145,590

18. ACQUISITIONS

On 2 April 1996, the Company acquired the whole of the issued share capital of Private Equity Managers Limited for a total consideration of £100,000 satisfied by the issue of 100,000 Ordinary Shares of £1 each. The results of the subsidiary undertaking have been consolidated for the period from 2 April 1996 when the parent company started to exercise control. The Group has used acquisition accounting to account for the purchase.

The assets and liabilities of Private Equity Managers Limited acquired are set out below:

	Book Value £	Fair Value £
Current assets		
Other debtors	98	98
Cash at bank and in hand	<u>7,524</u>	<u>7,524</u>
	7,622	7,622
Current liabilities		
Creditors	(11,764)	(11,764)
Net liabilities	(4,142)	(4,142)
Goodwill		<u>104,142</u>
Satisfied by:		£100,000
Shares allotted		£100,000

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

18. ACQUISITIONS (continued)

On 20 December 1996, the Company acquired 2,450 'A' Ordinary shares of Brown Shipley Venture Managers Limited representing 49% of its issued share capital for a total consideration of £1,011,286. The Company previously owned 2,550 'B' Ordinary shares representing 51% of its issued share capital and accounted for it as a subsidiary undertaking.

The consideration was satisfied by an initial cash payment of £50,000, deferred cash payments of £795,000 and the issue of unsecured loan notes of £155,000. The acquisition expenses amounted to £11,286.

The assets and liabilities of Brown Shipley Venture Managers Limited on 20 December 1996 are set out below:

	Book Value £	Fair Value £
Tangible fixed assets	107,414	107,414
Current assets		
Other debtors	57,093	57,093
Prepayments	46,281	46,281
Cash at bank and in hand	<u>183,681</u>	<u>183,681</u>
Total assets	394,469	394,469
Liabilities		
Creditors	<u>(389,469)</u>	<u>(389,469)</u>
Net assets	<u>5,000</u>	<u>5,000</u>
Share of net assets acquired (49%)		2,450
Goodwill		<u>1,008,836</u>
		<u>£1,011,286</u>
Satisfied by:		
Cash		50,000
Deferred cash		795,000
Unsecured loan notes		155,000
Acquisition expenses		<u>11,286</u>
		<u>£1,011,286</u>

**BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 1996

19. RELATED PARTY TRANSACTIONS

The Company has no controlling party as defined by Financial Reporting Standard No. 8.

During the year there were the following related party transactions:

- (a) the acquisition of Private Equity Managers Limited from the executive directors and their related party interests as defined by Financial Reporting Standard No. 8 by Brown Shipley Development Capital Limited (see note 18).
- (b) the acquisition of 49% of the issued share capital of Brown Shipley Venture Managers Limited from the executive directors and their related party interests as defined by Financial Reporting Standard No. 8 by Brown Shipley Development Capital Limited (see note 18).
- (c) the transfer to Brown Shipley & Co. Limited of part of its economic interests in Brown Shipley Development Capital Fund, The Second Brown Shipley Fund, and The Second Brown Shipley Fund II (see note 9).
- (d) the receipt of distribution of income and capital gains as payment for the general partner's management charge from the Brown Shipley Development Capital Fund, The Second Brown Shipley Fund, The Second Brown Shipley Fund II, and the Third Private Equity Fund. The amount received in the period is £2,417,328.
- (e) the executive directors of the Company and their related party interests as defined by Financial Reporting Standard No. 8 have limited partner interests and founder partner interests in the Brown Shipley Development Capital Fund, The Second Brown Shipley Fund, The Second Brown Shipley Fund II, and the Third Private Equity Fund. Distributions in respect of such interests are governed by individual limited partnership agreements.
- (f) the Company's economic interests in the Brown Shipley Development Capital Fund, The Second Brown Shipley Fund, and The Second Brown Shipley Fund II have been assigned to certain of the executive directors and their interests.

REPORT OF THE AUDITORS

TO THE MEMBERS OF BROWN SHIPLEY DEVELOPMENT CAPITAL LIMITED

We have audited the financial statements on pages 5 to 22 which have been prepared under the accounting policies set out on page 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the directors' report on page 4 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.

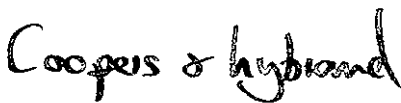
BASIS OF OPINION

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 judgements 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 mis-statement, 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 affairs of the Company and the Group as at 31 December 1996 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND

Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6NN

25 February 1997