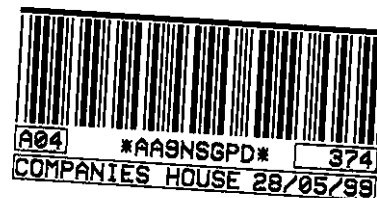


KNIGHTS PROPERTY COMPANY LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 1998

Registered Number : 1655420



KNIGHTS PROPERTY COMPANY LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 1998

<u>CONTENTS</u>	<u>PAGE</u>
Directors' report	2
Statement of directors' responsibilities	3
Report of the auditors	4
Profit and loss account	5
Note of historical cost profits and losses	5
Balance sheet	6
Notes to the financial statements	7 - 11

KNIGHTS PROPERTY COMPANY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 1998

The directors present their report and the financial statements for the year ended 31 December 1998.

PRINCIPAL ACTIVITY

The principal activity of the company continues to be owning land and buildings which are let primarily to other members of the Group.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

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

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not recommend the payment of a dividend. The profit for the financial year of £635,120 (1997 £528,705) will be transferred to reserves.

PROPERTY VALUATION

The properties owned by the company were revalued and the surplus arising therefrom of £5,949,900 has been recognised in the financial statements. The company's parent, National Farmers Union Mutual Insurance Society Limited, has agreed in consequence to reinstate £5,949,900 of the interest free loan made to the company for the original property developments.

DIRECTORS

The directors during the year were as follows:

A.S. Young, FCII
N. Carter, FCA
D.F. Tigwell, FCII (retired 31 July 1998)

None of the directors had any beneficial interests in shares of either the company or any other company in the group.

Mr. N. Carter retires by rotation, and, being eligible, offers himself for re-election.


YEAR 2000

The company's ultimate holding company, The National Farmers Union Mutual Insurance Society Limited, established a millennium compliance project in 1997, designed to address the impact of the year 2000 on the Group's business. This project covered the key risks of the company. All costs associated with the project have been borne by the ultimate holding company and are disclosed in its accounts.

AUDITORS

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to re-appoint PricewaterhouseCoopers as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board


W.E. Cooper
Secretary

18 March 1999

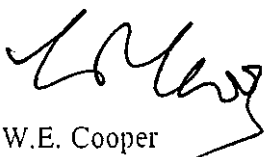
KNIGHTS PROPERTY COMPANY LIMITEDSTATEMENT OF DIRECTORS' RESPONSIBILITIES

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 profit of the company for that period. In preparing those financial statements, the directors confirm that

- ♦ suitable accounting policies have been applied consistently;
- ♦ reasonable and prudent judgement have been made;
- ♦ applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ♦ the financial statements have been prepared on the going concern basis.

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. 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.

By order of the Board



W.E. Cooper
Secretary

18 March 1999

REPORT OF THE AUDITORS TO THE MEMBERS OF
KNIGHTS PROPERTY COMPANY LIMITED

We have audited the financial statements on pages 5 to 11, which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
 Chartered Accountants and Registered Auditors
 Birmingham

19 March 1999

KNIGHTS PROPERTY COMPANY LIMITEDPROFIT AND LOSS ACCOUNTFOR THE YEAR ENDED 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u> £	<u>1997</u> £
<u>Continuing Operations</u>			
TURNOVER	1(b)	1,380,293	1,398,373
Administrative expenses		(597,568)	(526,532)
Exceptional items	3	154,248	-
		<hr/>	<hr/>
OPERATING PROFIT	4	936,973	871,841
Interest receivable and similar income		3,668	2,650
Profit on disposal of fixed assets		99,664	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,040,305	874,491
Tax on profit on ordinary activities	5	(405,185)	(345,786)
		<hr/>	<hr/>
RETAINED PROFIT FOR THE FINANCIAL YEAR		635,120	528,705
RETAINED PROFITS BROUGHT FORWARD		2,873,515	2,344,810
		<hr/>	<hr/>
RETAINED PROFITS CARRIED FORWARD		<u>3,508,635</u>	<u>2,873,515</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains and losses other than those included in the profits above and, therefore, no separate statement of total recognised gains and losses has been presented.


NOTE OF HISTORICAL COST PROFITS AND LOSSES


Reported profit on ordinary activities before taxation	1,040,305	874,491
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	<u>(312,352)</u>	<u>(198,976)</u>
Historical cost profit on ordinary activities before taxation	<u>727,953</u>	<u>675,515</u>
Historical cost profit for the year retained after taxation	<u>322,768</u>	<u>329,729</u>

KNIGHTS PROPERTY COMPANY LIMITEDBALANCE SHEETAS AT 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u>		<u>1997</u>	
		£	£	£	£
<u>FIXED ASSETS</u>					
Tangible assets	6		29,499,533		24,270,252
<u>CURRENT ASSETS</u>					
Debtors	7	672,442		849,824	
Cash at bank		39,260		106,343	
		<hr/>		<hr/>	
		711,702		956,167	
<u>CREDITORS</u>					
Amounts falling due within one year	8	(725,352)		(627,556)	
NET CURRENT ASSETS/(LIABILITIES)		<hr/>	(13,650)	<hr/>	328,611
TOTAL ASSETS LESS CURRENT LIABILITIES			<hr/>		<hr/>
			29,485,883		24,598,863
<u>CREDITORS</u>					
Amounts falling due after more than one year	9		(25,977,148)		(21,725,248)
NET ASSETS			<hr/>		<hr/>
			3,508,735		2,873,615
<u>CAPITAL AND RESERVES</u>					
Called up share capital	11		100		100
Profit and loss account			3,508,635		2,873,515
			<hr/>		<hr/>
EQUITY SHAREHOLDERS' FUND	12		<hr/>		<hr/>
			3,508,735		2,873,615

These accounts on pages 5 to 11 were approved by the Board of Directors on 18 March 1999 and were signed on its behalf by:

 A.S. YOUNG, DIRECTOR

 N. CARTER, DIRECTOR

KNIGHTS PROPERTY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently are set out below.

a) Basis of accounting

The financial statements have been prepared on the historical cost convention as adjusted for the revaluation of fixed assets.

b) Turnover

Turnover represents rental income from properties let to tenants.

c) Depreciation

Depreciation is charged on a straight line basis so as to write off the value of completed buildings over 50 years. The value of land is not depreciated.

d) Fixed assets

The properties are valued annually on an open market basis by the Group's professional staff who are members of the Royal Institution of Chartered Surveyors, and the aggregate surplus or deficit is transferred to the interest free loan from the parent company.

e) Deferred taxation

Deferred taxation is calculated on the liability method and consists of the estimated taxation, or relief from taxation, which is expected to arise in the foreseeable future from material timing differences. Provision has not been made to the extent that tax allowances have been surrendered to group companies without payment being made to compensate. In such cases provision has been made in the accounts of the parent company.

f) Cash Flow Statement

The company is a wholly owned subsidiary of The National Farmers Union Mutual Insurance Society Limited and the cash flows of the company are included within the consolidated cash flow statement of The National Farmers Union Mutual Insurance Society Limited. Consequently, the company is exempt under the terms of Financial Reporting Standard (FRS) No. 1 (Revised) from publishing a cash flow statement.

2. DIRECTORS' EMOLUMENTS AND EMPLOYEE INFORMATION

The directors received no emolument for the year ended 31 December 1998 and 31 December 1997. There were no employees during either year.

KNIGHTS PROPERTY COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1998

3. EXCEPTIONAL ITEMS

	<u>1998</u>	<u>1997</u>
	£	£
(Reinstatement)/waiver of liabilities due to parent company	(5,949,900)	(982,000)
Surplus arising from revaluation of fixed assets	5,949,900	982,000
Repayment in respect of property VAT election	154,248	-
	<u>154,248</u>	<u>-</u>

The properties owned by the company were revalued and the surplus arising therefrom of £5,949,900 has been recognised in the financial statements. The company's parent, National Farmers Union Mutual Insurance Society Limited, has agreed in consequence to reinstate £5,949,900 of the interest free loan made to the company for the original property developments.

4. OPERATING PROFIT

	<u>1998</u>	<u>1997</u>
	£	£
Operating profit is stated after charging :		
Depreciation	485,447	389,729
Auditors' remuneration	<u>2,350</u>	<u>2,350</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1998</u>	<u>1997</u>
	£	£
The taxation charge for the year comprises :		
Corporation tax charge at 31% (1997 - 31.5%) on the profit for the year	405,185	345,786
	<u>405,185</u>	<u>345,786</u>

KNIGHTS PROPERTY COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1998

6. TANGIBLE FIXED ASSETS

	<u>Land & Buildings</u> £
<u>Cost or valuation</u>	
At 1 January 1998	27,848,145
Disposal	(266,346)
Surplus on revaluation	5,949,900
	<hr/>
At 31 December 1998	<u>33,531,699</u>
<u>Depreciation</u>	
At 1 January 1998	3,577,893
Charged for the year	485,447
On disposal	(31,174)
	<hr/>
At 31 December 1998	<u>4,032,166</u>
<u>Net book value</u>	
At 31 December 1998	<u><u>29,499,533</u></u>
At 31 December 1997	<u><u>24,270,252</u></u>

All land and buildings are valued annually by the Group's professional staff who are members of the Royal Institute of Chartered Surveyors and by independent external Chartered Surveyors. If land and buildings had not been revalued they would have been included at the following amounts:

	<u>Land and Buildings</u> £
Cost	46,025,399
Aggregate depreciation based on cost	(5,327,034)
	<hr/>
Net book value based on cost	<u><u>40,698,365</u></u>

Depreciation has not been charged on freehold land, or buildings under construction at Norwich, which are stated at their revalued amounts of £2,715,309 and £2,997,318 respectively (1997 £2,305,234 and £2,868,318).

KNIGHTS PROPERTY COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1998

7. <u>DEBTORS : AMOUNTS FALLING DUE WITHIN ONE YEAR</u>	<u>1998</u>	<u>1997</u>
	£	£
Amount owed by parent undertaking	-	3,346
Other debtors	518,194	831,897
Prepayment and accrued income	154,248	14,581
	<u>672,442</u>	<u>849,824</u>
8. <u>CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR</u>	<u>1998</u>	<u>1997</u>
	£	£
Trade creditors	57,202	41,633
Amounts owed to parent undertaking	-	11,638
Corporation tax	405,185	345,752
Other taxes	35,933	9,930
Other creditors	5,875	5,527
Accrual and deferred income	221,157	213,076
	<u>725,352</u>	<u>627,556</u>
9. <u>CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</u>	<u>1998</u>	<u>1997</u>
	£	£
Amounts owed to parent undertaking	<u>25,977,148</u>	<u>21,725,248</u>

This is an interest free loan from the parent company and 12 months' notice of repayment is required; such notice has not been received

10. PROVISION FOR LIABILITIES AND CHARGES

The maximum potential liability, including that which relates to group companies in respect of group relief, at a corporation tax rate of 31% (1997 - 31%), amounted to £1,661,035 at 31 December 1998 (1997 £1,678,867).

Provision is made in the accounts of the ultimate holding company for the amount of £1,661,000 (1997 £1,679,000) that is anticipated will reverse in the foreseeable future.

KNIGHTS PROPERTY COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1998

11. SHARE CAPITAL

	<u>1998</u>	<u>1997</u>
	£	£
<u>Authorised :</u>		
10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
<u>Allotted, called up and fully paid :</u>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1998</u>	<u>1997</u>
	£	£
At 1 January 1998	2,873,615	2,344,910
Profit for the financial year	635,120	528,705
	<u> </u>	<u> </u>
At 31 December 1998	<u>3,508,735</u>	<u>2,873,615</u>

13. RELATED PARTIES

The Company is relying on the exemption set out in FRS8 not to disclose transactions with other Group Companies.

14. CAPITAL COMMITMENTS

There was no capital expenditure contracted for at 31 December 1998 or 31 December 1997.

15. ULTIMATE HOLDING COMPANY

The immediate parent company is NFU Mutual Management Company Limited, which is incorporated in England and Wales.

The directors consider the company's ultimate controlling company to be The National Farmers Union Mutual Insurance Society Limited, which is incorporated in England and Wales. Copies of the accounts of the ultimate controlling party can be obtained from the Secretary at the following address:

Tiddington Road,
 Stratford-upon-Avon.
 CV37 7BJ