

Registered Number 2798178

SCARCROFT INVESTMENTS LIMITED
Report and Financial Statements
for the year ended
31 March 1996



SCARCROFT INVESTMENTS LIMITED

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the period ended 31 March 1996.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The principal activity of the Company is as a Holding Company for UK investments.

RESULTS AND DIVIDENDS

The results of the Company for the period are set out on page 4.

The directors do not recommend the payment of a final dividend.

POST BALANCE SHEET EVENTS

On the 9th October 1996 the company sold its shares in Torch Communications Limited, a joint venture with Kingston Communications of Hull. The 50% stake was sold to Kingston Communications for £26m, giving rise to an accounting profit of £14m. The estimated tax liability is £2m.

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the period were as follows:-

Mr A W J Coleman
Mr R Dickinson

Mr J M Chatwin was appointed to the Board on 12 August 1996. Messrs P A Brown and I Wadsworth both served as Directors during the period 7 October 1996 to 14 October 1996.

The interests of Mr R Dickinson as at 31 March 1995 and 31 March 1996 in the 56.8p and 68 2/11p ordinary shares, respectively, of Yorkshire Electricity Group plc, the ultimate parent company, were as follows:-

| | <u>Ordinary Shares</u> | <u>Executive Option Scheme</u> | <u>Sharesave Scheme (Under Option)</u> |
|---------------|----------------------------|------------------------------------|--|
| 31 March 1995 | 11,055 | 51,138 | 5100 |
| 31 March 1996 | 13,660* | 51,138 | 629 |

Includes accrued rights in shares under the Yorkshire Electricity Group plc Executive Long Term Share Incentive Scheme.

Options to purchase fully paid ordinary shares were granted under the Yorkshire Electricity Group Sharesave Scheme on 16 February 1996 at £5.48 per share exercisable after 5 years and under the Executive Share Option Scheme on various dates and at prices ranging between £2.87 and £7.82 per share exercisable after periods of between three and ten years. An option to purchase fully paid ordinary shares granted under the Yorkshire Electricity Group Sharesave Scheme on 11 December 1990 at £1.75 per share matured on 1 March 1996.

SCARCROFT INVESTMENTS LIMITED

DIRECTORS' REPORT (continued)

The interests of Mr A W J Coleman and Mr J M Chatwin in Yorkshire Electricity Group plc, the ultimate parent company, are disclosed in the financial statements of Yorkshire Electricity Group plc.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The following statement, which should be read in conjunction with the auditors' statement of respective responsibilities of Directors and auditors, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that, in preparing the financial statements on pages 4 to 12 on a going concern basis, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

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.

AUDITORS

On 1 February 1996 our auditors changed the name under which they practice to Deloitte & Touche and, accordingly, have signed their report in their new name. A resolution for the reappointment of Deloitte & Touche as auditors of the Company is to be proposed at the next General Meeting of the Company.

Approved by the Board of Directors
and signed on behalf of the Board

S. M. Davenport
23/12/96

S M Davenport
Secretary

Wetherby Road
Scarcroft
LEEDS
LS14 3HS

SCARCROFT INVESTMENTS LIMITED

AUDITORS' REPORT TO THE MEMBERS OF SCARCROFT INVESTMENTS LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 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 circumstances of the Company, 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 as at 31 March 1996 and of the profit of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
LEEDS
LS1 2AJ

16 January, 1997

SCARCROFT INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1996

| | Note | <u>1995/96</u> <u>£</u> | <u>1994/95</u> <u>£</u> |
|---|------|----------------------------|----------------------------|
| Administrative expenses | | 225 | 2,776,960 |
| OPERATING LOSS | 2 | (225) | (2,776,960) |
| Income from participating interests -discontinued | 6(a) | - | 1,236,243 |
| Other interest receivable and similar income | 3 | 21,051,498 | 1,886,476 |
| | | <u>21,051,498</u> | <u>3,122,719</u> |
| | | 21,051,273 | 345,759 |
| Interest payable and similar charges | 4 | 6,090,594 | 4,252,564 |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | | <u>14,960,679</u> | <u>(3,906,805)</u> |
| Taxation | 5 | - | (1,228,760) |
| RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR | | <u>14,960,679</u> | <u>(2,678,045)</u> |

The results of 1995/96 and 1994/95 are in respect of continuing operations.

The company has no recognised gains or losses other than the profit for the year, and the loss for the preceding year disclosed above; accordingly, a statement of recognised gains and losses has not been included. There is no difference between the results presented above and the results on an unmodified historical cost basis, therefore, a note of historical cost profit is not required.

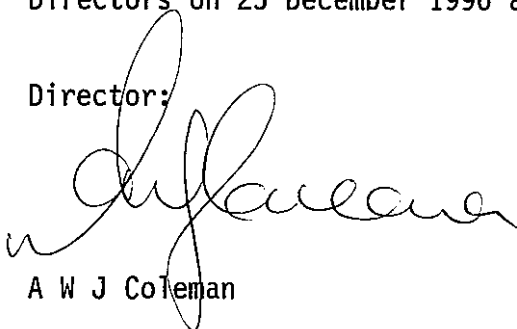
SCARCROFT INVESTMENTS LIMITED

BALANCE SHEET

| | Note | 31 March 1996 | 31 March 1995 |
|--|------|--------------------|---------------------|
| | | <u>£</u> | <u>£</u> |
| FIXED ASSETS | | | |
| Investments | 6 | 15,038,034 | 8,858,784 |
| CURRENT ASSETS | | | |
| Debtors - due within one year | 7 | 42,767,771 | 33,033,731 |
| Debtors - due after more than one year | 7 | 30,000,000 | 15,000,000 |
| | | <u>72,767,771</u> | <u>48,033,731</u> |
| CREDITORS (amounts falling due within one year) | 8 | (67,572,776) | (66,620,165) |
| NET CURRENT ASSETS/(LIABILITIES) | | <u>5,194,995</u> | <u>(18,586,434)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 20,233,029 | (9,727,650) |
| CREDITORS (amounts falling due after more than one year) | 8 | (30,000,000) | (15,000,000) |
| NET LIABILITIES | | <u>(9,766,971)</u> | <u>(24,727,650)</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 10 | 2 | 2 |
| Profit and loss account | 11 | (9,766,973) | (24,727,652) |
| Equity Shareholders' Funds | | <u>(9,766,971)</u> | <u>(24,727,650)</u> |

These financial statements on pages 4 to 12 were approved by the Board of Directors on 23 December 1996 and signed on its behalf by:-

Director:



A W J Coleman

SCARCROFT INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of preparation

These accounts have been prepared in accordance with applicable accounting standards under the historical cost convention.

Investments

Fixed asset investments are shown at cost less any provision for permanent diminution in value.

Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision for deferred taxation, using the liability method, is made to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Reporting the substance of transactions

In accordance with Financial Reporting Standard (FRS) No. 5, transactions entered into by the Group are recorded in the financial statements taking into account their full commercial substance.

2. OPERATING LOSS

Operating loss is stated after charging:-

| | <u>1995/96</u> | <u>1994/95</u> |
|-------------------------------------|----------------|----------------|
| | <u>£</u> | <u>£</u> |
| Auditors' remuneration - Audit fees | - | 500 |

None of the Directors received any remuneration from the Company. The Company has no employees.

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

| | | |
|---|-------------------|------------------|
| Interest received from parent undertaking | 1,361,633 | 982,500 |
| Interest received from subsidiary undertakings | 633,484 | 195,792 |
| Interest received from undertakings in which the company has a participating interest : | | |
| Continuing | 1,096,381 | 404,426 |
| Discontinued | - | 303,758 |
| Release of provision against investment | 17,960,000 | - |
| | <u>21,051,498</u> | <u>1,886,476</u> |

SCARCROFT INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS (continued)

| | <u>1995/96</u> <u>£</u> | <u>1994/95</u> <u>£</u> |
|--|----------------------------|----------------------------|
| 4. INTEREST PAYABLE | | |
| On other loans | 1,361,633 | 982,500 |
| Interest payable to parent undertaking | 4,728,961 | 3,270,064 |
| | <u>6,090,594</u> | <u>4,252,564</u> |
| 5. TAXATION | | |
| Group relief receivable | - | 1,228,760 |
| | <u>-</u> | <u>1,228,760</u> |

No tax charge arises as the accounting profit arises from the write back of provisions.

6. FIXED ASSET INVESTMENTS

| | <u>31 March 1996</u> <u>£</u> | <u>31 March 1995</u> <u>£</u> |
|-------------------------|----------------------------------|----------------------------------|
| Subsidiary undertakings | 102 | 102 |
| Associated undertakings | 14,896,259 | 8,858,682 |
| Other investments | 141,673 | - |
| | <u>15,038,034</u> | <u>8,858,784</u> |

SCARCROFT INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS (continued)

6. FIXED ASSET INVESTMENTS (cont'd)

a) Associated undertakings

| | 31 March 1996 £ | 31 March 1995 £ |
|---|---------------------|--------------------|
| Shares at cost : | | |
| At 1 April | 500,000 | 16,000,000 |
| Disposals | - | 15,500,000 |
| At 31 March | <u>500,000</u> | <u>500,000</u> |
| Loans : | | |
| At 1 April | 11,122,440 | 5,009,793 |
| Additions | 3,273,819 | 7,348,889 |
| Repaid | - | (1,236,242) |
| At 31 March | <u>14,396,259 -</u> | <u>11,122,440</u> |
| Provision against investment in associated undertaking | <u>-</u> | <u>(2,763,758)</u> |
| | <u>14,896,259</u> | <u>8,858,682</u> |

SCARCROFT INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS (continued)

6. FIXED ASSET INVESTMENTS (continued)

Loans to undertakings in which the company has a participating interest:

Torch Communications Limited has issued several 1/4% Deep Discounted Loan notes, all at an issue price of £1,000,000:-

| Date issued | Repayment Date | Repayment Price £ |
|------------------|-----------------|----------------------|
| 15 February 1994 | 11 January 1999 | 1,458,228.24 |
| 23 June 1994 | 11 January 1999 | 1,574,498.58 |
| 28 July 1994 | 11 January 1999 | 1,526,726.27 |
| 25 August 1994 | 11 January 1999 | 1,545,579.50 |
| 08 December 1994 | 11 January 1999 | 1,502,691.97 |
| 31 January 1995 | 11 January 1999 | 1,490,043.85 |
| 03 March 1995 | 11 January 1999 | 1,472,654.15 |
| 27 March 1995 | 11 January 1999 | 1,455,250.02 |
| 01 May 1995 | 11 January 1999 | 1,432,671.61 |
| 01 August 1995 | 11 January 1999 | 1,376,889.67 |
| 20 December 1995 | 11 January 1999 | 1,286,373.48 |
| 31 January 1996 | 11 January 1999 | 1,275,266.35 |
| 22 March 1996 | 11 January 1999 | 1,281,462.09 |

b) Subsidiary & Associated Undertakings :-

| | Class of Capital | % Equity Held | Principal Activities |
|--------------------------|------------------|---------------|-------------------------|
| Yorkshire Energy Ltd | Ordinary | 100% | Gas Investment & Supply |
| Torch Communications Ltd | Ordinary | 50% | Development |

The Company held 500,000 Class "A" ordinary shares of £1 each in Torch Communications Limited, a company registered in England and Wales. This is a joint venture with Kingston Communications (Hull) Limited.

c) Other Investments

During the year the Company acquired 117,857 "A" ordinary shares of £1.20202166, £141,673 in total in Royal Armouries (International) plc.

| | 31 March 1996 £ | 31 March 1995 £ |
|--|--------------------|--------------------|
| 7. DEBTORS | | |
| Amounts owed by parent undertaking: | | |
| Due within one year | 2,146,760 | 2,515,197 |
| Due after more than one year | 30,000,000 | 15,000,000 |
| Amounts owed by subsidiary undertakings | 40,550,577 | 30,323,207 |
| Amounts owed by undertakings in which the company has a participating interest | 70,434 | 195,327 |
| | <u>72,767,771</u> | <u>48,033,731</u> |

SCARCROFT INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS (continued)

8. CREDITORS

| | 31 March 1996 <u>£</u> | 31 March 1995 <u>£</u> |
|---|---------------------------|---------------------------|
| Creditors (amounts falling due within one year): | | |
| Accruals and deferred income | 748,570 | 369,438 |
| Amounts owed to parent undertaking | 66,824,206 | 66,250,727 |
| | <u>67,572,776</u> | <u>66,620,165</u> |
| Creditors (amounts falling due after more than one year): | | |
| Bank loans (note 9) | <u>30,000,000</u> | <u>15,000,000</u> |

9. BORROWINGS

Analysis of loan repayments:

Bank loans outstanding

| | | |
|-------------------------------|-------------------|-------------------|
| Within one year, or on demand | - | - |
| Between one and two years | 2,250,000 | - |
| Between two and five years | 20,250,000 | 9,750,000 |
| Over five years | 7,500,000 | 5,250,000 |
| | <u>30,000,000</u> | <u>15,000,000</u> |

No loans are wholly repayable after five years.

Amounts repayable by instalments some of which fall due after five years:

Bank loans

| | | |
|----------------------------------|------------|------------|
| Total amount | 30,000,000 | 15,000,000 |
| Instalments due after five years | 7,500,000 | 5,250,000 |

There is a £30m credit facility in place with the European Investment Bank. The first tranche of £15 million was drawdown on 15 December 1993; and the interest on this tranche is payable at a fixed rate of 6.55% per annum. The second tranche of £15 million was drawdown on 30 November 1995; and the interest rate on this tranche is payable at a fixed rate of 7.52% per annum. Yorkshire Electricity Group plc unconditionally guarantees the due performance of the financial obligations under the contract.

SCARCROFT INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS (continued)

10. CALLED UP SHARE CAPITAL

| | 31 March 1996 £ | 31 March 1995 £ |
|-----------------------------------|--------------------|--------------------|
| Authorised: | | |
| 100 ordinary shares of £1 each | 100 | 100 |
| Allotted and fully paid: | | |
| 2 ordinary shares of £1 each | 2 | 2 |

11. RESERVES

| | Profit and Loss Account £ |
|--------------------------|------------------------------|
| Balance at 1 April 1995 | (24,727,652) |
| Profit for the year | 14,960,679 |
| Balance at 31 March 1996 | (9,766,973) |

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUND

| | 31 March 1996 £ | 31 March 1995 £ |
|--------------------------------------|--------------------|--------------------|
| Profit/(loss) for the financial year | 14,960,679 | (2,678,045) |
| Opening equity shareholders' funds | (24,727,650) | (22,049,605) |
| Closing equity shareholders' funds | (9,766,971) | (24,727,650) |

13. GROUP ACCOUNTS

The Company has taken advantage of the exemption from the requirement to present group accounts confirmed in section 228 of the Companies Act 1985 on the grounds that it is a wholly owned subsidiary of Yorkshire Electricity Group plc, a company registered in England & Wales.

14. FINANCIAL COMMITMENTS

A loan is to be provided to Royal Armouries (International) plc for £858,333, which is expected to be drawdown in December 1996.

SCARCROFT INVESTMENTS LIMITED

NOTES TO THE ACCOUNTS (continued)

15. POST BALANCE SHEET EVENT

On the 9th October 1996 the company sold its shares in Torch Communications Limited, a joint venture with Kingston Communications of Hull. The 50% stake was sold to Kingston Communications for £26m, giving rise to an accounting profit of £14m. The estimated tax liability is £2m.

16. ULTIMATE PARENT COMPANY

In the opinion of the directors the ultimate parent is Yorkshire Electricity Group plc, being a company incorporated in Great Britain and registered in England and Wales. Copies of the group financial statements are available from the Registrar of Companies, Crown Way, Maindy, Cardiff CF4 3UZ.