

REPORT AND FINANCIAL STATEMENTS 1998

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DIRECTORS' REPORT

The directors present their fifth report and the audited financial statements for the year ended 30 September 1998.

PRINCIPAL ACTIVITIES

The principal activities of the company are the acquisition of freehold and leasehold interests in residential properties and the letting of these properties under assured tenancies.

REVIEW OF THE BUSINESS

The directors believe that the level of operation of the company has been satisfactory for the year ended 30 September 1998. There is an intention, in the current business year, to transfer in the assets and liabilities of a number of fellow subsidiaries.

RESULTS AND DIVIDENDS

The results of the company for the year ended 30 September 1998 are set out in detail on page 5.

The directors do not recommend the payment of a dividend for the year ended 30 September 1998 (1997 - £nil).

CHANGE OF PARENT

On 23 November 1998 the company was acquired by The Royal Bank of Scotland plc. Details of the ultimate parent undertaking are disclosed in note 14.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and to date were as follows:

C V Reader, Chairman	-	(resigned 23 November 1998)
C Canham	-	(resigned 5 December 1997)
D E Cartledge	-	(appointed 5 December 1997)
R H Beattie	-	(appointed 23 November 1998)
E M Sheavills	-	(appointed 23 November 1998)
G T Whitehead	-	(appointed 23 November 1998)
S J Chrispin	-	(appointed 15 April 1999)

None of the directors held or hold any interests in the shares of the company during the year and to date.

C V Reader is a director of Close Brothers Investment Limited which provides administrative services to the company (see note 3 to the accounts).

None of the directors has a service contract or contract for service with the company.

SECRETARY

On 23 November 1998, W E Davis resigned as secretary of the company and Shirley Margaret MacGillivray was appointed as the secretary of the company.

SUPPLIER PAYMENT POLICY AND PRACTICE

It is company policy to agree and clearly communicate the terms of payment negotiated with suppliers, and then to pay according to those terms based upon the timely receipt of an accurate invoice.

The company had 21 days purchases outstanding at 30 September 1998, calculated in accordance with the requirements set down in the Companies Act 1985. This represents the ratio, expressed in days between the amounts invoiced to the group by its suppliers in the year and the amounts due, at the year end, to trade creditors within one year.

DIRECTORS' REPORT

YEAR 2000 STATEMENT

The directors recognise the importance of the Year 2000 issue and the consequences it may have for the company and its suppliers and customers.

The company has a continuous programme of systems maintenance and development, which includes addressing the problems posed by Year 2000. The costs of addressing the Year 2000 issue are therefore absorbed in the ongoing IT development expenditure of the company.

TAXATION STATUS

In the opinion of the directors, the company is not a close company for taxation purposes.

AUDITORS

A resolution for the re-appointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board



S J Chrispin
Director

30 April 1999

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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a 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. 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.



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AUDITORS' REPORT TO THE MEMBERS OF BESSA RBS III PLC

We have audited the financial statements on pages 2 to 12 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 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 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 30 September 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and
Registered Auditors
30 April 1999

Hill House
1 Little New Street
London EC4A 3TR

PROFIT AND LOSS ACCOUNT
Year ended 30 September 1998

	Note	1998 £	1997 £
TURNOVER	1	343,923	358,575
Direct property expenses	2	(146,725)	(143,038)
Administrative expenses	3	(42,406)	(40,942)
OPERATING PROFIT		154,792	174,595
Loss on sale of property		-	(49,507)
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		154,792	125,088
Interest payable	4	-	(2)
Interest receivable and similar income	5	12,542	4,472
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		167,334	129,558
Tax on profit on ordinary activities	6	(24,433)	(51,897)
Retained profit for the year	13	142,901	77,661
Retained profit brought forward		337,422	259,761
Retained profit carried forward		480,323	337,422

All figures relate to continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 September 1998

There are no recognised gains or losses other than the profit attributable to shareholders disclosed in the above profit and loss account.


BALANCE SHEET
30 September 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	7	<u>5,012,749</u>	<u>5,007,011</u>
CURRENT ASSETS			
Debtors	8	201,514	31,977
Cash at bank and in hand		<u>59,723</u>	<u>111,483</u>
		261,237	143,460
CREDITORS: amounts falling due within one year	9	<u>(68,661)</u>	<u>(88,047)</u>
NET CURRENT ASSETS		<u>192,576</u>	<u>55,413</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,205,325</u>	<u>5,062,424</u>
CAPITAL AND RESERVES			
Called up share capital	10	2,500,002	2,500,002
Share premium		2,225,000	2,225,000
Profit and loss account		<u>480,323</u>	<u>337,422</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	13	<u>5,205,325</u>	<u>5,062,424</u>
Net asset value per share	11	1.04	1.01

These financial statements were approved by the Board of Directors on 30 April 1999.

Signed on behalf of the Board of Directors

S J Chrispin

Director

CASH FLOW STATEMENT
Year ended 30 September 1998

	Note	1998 £	1997 £
Net cash inflow from operating activities	12	(15,709)	159,019
Returns from investments			
Interest received		12,542	4,472
Interest paid		-	(2)
Taxation			
UK corporation tax paid		(40,754)	(39,608)
Capital expenditure and financial investment			
Purchase of fixed assets		(7,839)	(171,049)
Sale of fixed assets		-	29,537
Decrease in cash		<u>(51,760)</u>	<u>(17,631)</u>

There are no movements in net debt other than the movement in cash. Accordingly no reconciliation of movements in net debt to movement in cash is presented.

NOTES TO THE ACCOUNTS

Year ended 30 September 1998

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards and are prepared under the historical cost convention.

The particular accounting policies adopted are described below.

Turnover

Turnover is the gross rental income receivable from letting residential properties under assured tenancies, net of provision for and write off of bad debts. All turnover is derived in the United Kingdom.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future. No provision has been made for the tax on the capital gain which may arise on the disposal of properties under the terms of the option agreement described in note 7.

Residential properties

No depreciation is provided on residential properties in respect of freehold and leasehold interests due to the existence of an option which enables the company to require The Royal Bank of Scotland plc to purchase the freehold and leasehold interests at a price in excess of cost, as described in note 7.

Depreciation

Depreciation is provided on the cost of furniture in equal annual instalments over the estimated useful lives of the assets. The rate of depreciation is 20% per annum.

2. DIRECT PROPERTY EXPENSES

	1998 £	1997 £
Depreciation	2,101	2,101
Property manager's fees	60,836	63,041
Repairs and maintenance	63,410	47,320
Insurance	4,664	6,664
Other property costs	15,714	23,912
	<u>146,725</u>	<u>143,038</u>

3. ADMINISTRATIVE EXPENSES

The company had no employees during the year (1997 - none). In accordance with an agreement dated 29 September 1993, Close Brothers Investment Limited charges a management fee which is calculated after taking into account all non-property related overhead expenses of the company. In the year ended 30 September 1998 a total of £42,406 (1997 - £40,942) was paid by the company which included the management fee, director's emoluments for the Chairman, audit, accounting and taxation fees, company secretarial and registration costs, bank charges and printing, stationery and postage expenses.

No directors have received any fees or emoluments from the company (1997 - £nil).

NOTES TO THE ACCOUNTS
Year ended 30 September 1998

4. INTEREST PAYABLE

	1998 £	1997 £
Bank interest	-	2
	<u>-</u>	<u>2</u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1998 £	1997 £
Interest received on loan to Bessa RBS		
VII	8,170	-
Bank deposit interest	4,372	4,472
	<u>12,542</u>	<u>4,472</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
United Kingdom corporation tax for the year to 30 September 1998		
at 21% (1997 – 24% for the 6 months to 31 March 1997 and		
21% for the 6 months to 30 September 1997)	35,581	51,897
Adjustment in respect of prior year	(11,148)	-
	<u>24,433</u>	<u>51,897</u>


NOTES TO THE ACCOUNTS
Year ended 30 September 1998
7. TANGIBLE FIXED ASSETS

	Freehold residential properties £	Long leasehold residential properties £	Total residential properties £	Furniture £	Total £
Cost:					
At 1 October 1997	3,877,770	1,123,392	5,001,162	10,504	5,011,666
Additions in year	7,839	-	7,839	-	7,839
	<u>3,885,609</u>	<u>1,123,392</u>	<u>5,009,001</u>	<u>10,504</u>	<u>5,019,505</u>
At 30 September 1998					
Accumulated depreciation:					
At 1 October 1997	-	-	-	(4,655)	(4,655)
Charge for the year	-	-	-	(2,101)	(2,101)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,756)</u>	<u>(6,756)</u>
At 30 September 1998	-	-	-	6,756	6,756
Net book value:					
At 30 September 1998	<u>3,885,609</u>	<u>1,123,392</u>	<u>5,009,001</u>	<u>3,748</u>	<u>5,012,749</u>
At 30 September 1997	<u>3,877,770</u>	<u>1,123,392</u>	<u>5,001,162</u>	<u>5,849</u>	<u>5,007,011</u>

The company has purchased freehold and long leasehold interests in residential properties. These properties are let under assured tenancies.

The company had an option, which if exercised, enabled it to require The Royal Bank of Scotland plc to repurchase the freehold and leasehold interests at a price equivalent of the amount required to provide investors in the company with a return of £1.20 per share. This sum was calculated after allowing for any corporation tax suffered by the company on the sale of the freehold and leasehold interests and any surplus or deficit in the company's distributable reserves at that time. This option was exercisable in whole, and not in part, only during the period of five days commencing five business days from 1 November 1998. The action taken by The Royal Bank of Scotland plc is stated in Note 15.

8. DEBTORS

	1998 £	1997 £
Trade debtors	43,336	26,977
Loan due from Bessa RBS VII	150,000	
Prepayments	-	5,000
Other debtors	8,178	-
	<u>201,514</u>	<u>31,977</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 1998

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998	1997
	£	£
Corporation tax	35,581	51,902
Accruals and deferred income	14,748	15,937
Tenants' deposits	18,332	20,208
	<u>68,661</u>	<u>88,047</u>

10. CALLED UP SHARE CAPITAL

	1998	1997
	£	£
Authorised:		
5,000,003 (1997 - 5,000,003) ordinary shares of 50p each	2,500,001	2,500,001
1 (1997 - 1) "A" ordinary share of 50p	1	1
50,000 (1997 - 50,000) redeemable preference shares of £1 each	50,000	50,000
	<u>2,550,002</u>	<u>2,550,002</u>
Called up, allotted and fully paid:		
5,000,003 (1997 - 5,000,003) ordinary shares of 50p each	2,500,001	2,500,001
1 (1997 - 1) "A" ordinary share of 50p	1	1
	<u>2,500,002</u>	<u>2,500,002</u>

The holder of the "A" ordinary share of 50p has the right to appoint and remove one director. The consent of the holder of the "A" ordinary share of 50p is required for:

- any alteration to the Articles of Association;
- passing of a special resolution or any resolution to wind-up the company;
- any increase in authorised and issued share capital;
- the creation of any new class of share capital of the company.

In all other respects the "A" ordinary share ranks pari passu with the ordinary shares of 50p each in terms of voting, dividends and rights upon a winding up.

11. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on net assets of £5,205,325 (1997 - £5,062,424) and on 5,000,004 (1997 - 5,000,004) issued ordinary shares.

NOTES TO THE ACCOUNTS

Year ended 30 September 1998

12. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998	1997
£	£	£
Operating profit	154,792	174,595
Depreciation	2,101	2,101
Increase in debtors	(169,537)	(8,119)
Decrease in creditors	(3,065)	(9,558)
	<u>(170,501)</u>	<u>(15,576)</u>
Net cash inflow from operating activities	<u>(15,709)</u>	<u>159,019</u>

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998	1997
	£	£
Profit for the year	142,901	77,661
Opening shareholders' funds	<u>5,062,424</u>	<u>4,984,763</u>
Closing shareholders' funds	<u>5,205,325</u>	<u>5,062,424</u>

14. ULTIMATE PARENT UNDERTAKING

At year end the company did not have an ultimate parent or controlling company. On 23 November 1998 the company was acquired by The Royal Bank of Scotland plc, who became the company's ultimate parent undertaking and controlling company. The Royal Bank of Scotland plc is incorporated in Great Britain and registered in Scotland. Copies of the ultimate parent's consolidated financial statements may be obtained from The Secretary, The Royal Bank of Scotland plc, 36 St. Andrew Square, Edinburgh.

15. POST BALANCE SHEET EVENTS

In November 1998, the option which enabled the company to require the Royal Bank of Scotland plc to purchase the properties owned by the company at a price in excess of cost, expired without being exercised. Instead, the company's shareholders at that date agreed to sell their ordinary shares in the company to the Royal Bank of Scotland for a price which provided those shareholders with a return equivalent to that which they would have received had the option been exercised.