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Reversionary Gains I Limited

(formerly Reversionary Gains I PLC)

Directors
D R Macdonald, B.L., N.P.
H B Shulman, LL.M.
D H S Toplas, M.A., M.Sc., A.C.A.
H J H C Hildreth, M.A., F.C.I.T.

Secretaries and Registered Office
Park Circus (Secretaries) Limited
James Sellars House
144 West George Street
Glasgow
G2 2HG

Solicitors and Property Managers
Graham Harvey
Northway House
1379 High Road
London
N20 9LP

Auditors
Ernst & Young
George House
50 George Square
Glasgow G2 1RR

Bankers
The Royal Bank of Scotland plc
122 Cathcart Street
Greenock
PA15 1BA

Registrars
Park Circus Registrars Limited
James Sellars House
144 West George Street
Glasgow
G2 2HG

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the 8 months ended 30 June 1999.

Change of registration
The Company which had been registered as a public company was reregistered as a private company on 5 January 1999.

Results and dividends
The profit and loss account of the Company is set out on page 5 and shows the loss for the period. The Directors propose that no dividend be paid.

Principal activities, review of the business and future developments
The principal activity of the Company is investment in home reversion property. The Directors consider the results of the period to be satisfactory having regard to the exceptional costs incurred in evaluating future options for the Company and its Shareholders.

Fixed assets
During the period, six properties that had become vacant were sold.

Movements in fixed assets are set out in note 5 to the financial statements.

Having obtained a full valuation of the properties at 31 October 1997 the Directors have not done so for the purpose of these accounts pending decisions on future options and the properties are stated at their 1997 values with subsequent additions at cost. This does not comply with Statement of Standard Accounting Practice 19 (SSAP 19) which requires them to be stated at market value at the balance sheet date. However, the Directors did not feel justified in incurring the necessary costs for these financial statements. Appropriate valuations will be used for establishing exit values and a valuation of the reversionary properties has been obtained as at March 2000 which indicates a further increase in value. Details of the position as at 31 March 2000 will be communicated to shareholders separately.

Statement of Directors' responsibilities in respect of the financial statements
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 or loss of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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. 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.

DIRECTORS' REPORT

Directors and their interests
The Directors of the Company during the period and their interests in the ordinary share capital of the Company were:

	Ordinary shares of 50p each	
	30 June 1999	*31 October 1998*
D R Macdonald, B.L., N.P.	1	1
H B Shulman, LL.M.	-	-
D H S Toplas, M.A., M.Sc., A.C.A.	-	-
H J H C Hildreth	-	-

Payments to creditors
The Company does not follow any specific code or standard on payment practice. However, it is the Company's policy to negotiate terms with its suppliers and to ensure that they are aware of the terms of payment when business is agreed. It is the Company's policy to abide by these terms. Creditors days have not been calculated as the Company has no trade creditors.

Year 2000
Many computer systems which express dates using only the last two digits of the year may malfunction due to the date change to 2000. The risk to the business relates not only to the company's computer systems, but also to some degree on those of our suppliers. The company has requested from major suppliers and other trading partners with whom information is exchanged electronically, confirmation that their relevant systems are Year 2000 compliant.

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. However, the Board believes that its plans and resources allocated are appropriate and adequate to address the issue.

Auditors
Ernst & Young have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board

Director - on behalf of
Park Circus (Secretaries) Limited
Secretaries

28 April 2000

ERNST & YOUNG

REPORT OF THE AUDITORS
to the shareholders of Reversionary Gains I Limited

We have audited the financial statements on pages 5 to 12, which have been prepared under the historical cost convention as modified by the revaluation of investment properties, and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

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 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 as to whether the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us was limited because the directors have not obtained valuations of the investment properties at 30 June 1999. The investment properties have been included in the accounts at their 31 October 1997 values with subsequent additions at cost, in contravention of Statement of Standard Accounting Practice 19 (SSAP 19). In the absence of valuations at 30 June 1999, we are unable to determine the impact, if any, that this departure from SSAP 19 would have on the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from departure from SSAP 19 and limitation in audit scope

As noted above investment properties have not been included in the financial statements at their open market value at the balance sheet date. This is not in accordance with the requirements of SSAP 19.

Except for the non-compliance with the above aspect of SSAP 19 and except for any adjustments that might have been found to be necessary had the open market values of the company's investment properties been determined, in our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 June 1999 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect of the limitation on our work relating to investment properties, we have not obtained all the information that we considered necessary for the purpose of our audit.

Ernst & Young

Ernst & Young
Registered Auditor
Glasgow

28 April 2000

PROFIT AND LOSS ACCOUNT
for the 8 months ended 30 June 1999

	Notes	1999 £	Year to 31 October 1998 £
Turnover	1	27,563	83,019
Depreciation on furnishings		(2,700)	(4,050)
Other cost of sales		(17,922)	(52,742)
		(20,622)	(56,792)
Gross profit		6,941	26,227
Administration expenses		(45,171)	(125,447)
Operating loss		(38,230)	(99,220)
Gain/(loss) on sale of investment properties		21,836	(26,123)
Bank interest receivable		9,939	8,413
Loss on ordinary activities before taxation	3	(6,455)	(116,930)
Tax on loss on ordinary activities	4	(1,162)	14,186
Loss for the financial year	12	(7,617)	(102,744)

All of the activities undertaken by the Company during the year were continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 8 months ended 30 June 1999

	1999 £	Year to 31 October 1998 £
Loss for the financial year	(7,617)	(102,744)
Unrealised gain on revaluation of properties	-	-
Corporation tax on gains recognised in previous periods	(24,453)	(14,509)
Deferred tax utilised re gains recognised in previous periods	24,453	14,509
Release of deferred tax provision on revalued properties	15,390	551
Total recognised gains and losses relating to the period	7,773	(102,193)

The notes on pages 8 to 12 form part of these financial statements.

ERNST & YOUNG

Reversionary Gains I Limited

(formerly Reversionary Gains I PLC)

BALANCE SHEET
at 30 June 1999

	Notes	1999 £	31 October 1998 £
Fixed assets			
Tangible fixed assets	5	2,319,456	2,692,322
Current assets			
Debtors	6	30,026	31,704
Cash at bank and in hand		516,757	172,771
		546,783	204,475
Creditors: amounts falling due within one year	7	(59,127)	(57,615)
Net current assets		487,656	146,860
Total assets less current liabilities		2,807,112	2,839,182
Provision for liabilities and charges	8	(43,867)	(83,710)
		2,763,245	2,755,472
Capital and reserves			
Called up share capital	9	1,208,896	1,208,896
Share premium account	10	955,459	955,459
Revaluation reserve	11	315,521	427,755
Profit and loss account		292,261	163,362
Equity Shareholders' Funds		2,763,245	2,755,472

Approved by the Board on 28 April 2000

D R Macdonald
Director

The notes on pages 8 to 12 form part of these financial statements.

STATEMENT OF CASH FLOWS
for the 8 months ended 30 June 1999

	Notes	1999 £	Year to 31 October 1998 £
Net cash outflow from operating activities	13	(57,953)	(78,563)
Returns on investments and servicing of finance			
Interest received		9,939	8,413
Taxation			
Corporation tax paid		-	(6,914)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		-	(35,659)
Sale proceeds of tangible fixed assets		392,000	181,322
Increase in cash for the period		343,986	68,599

Reconciliation of net cash flow to movement in net funds

	1999 £	1998 £
Increase in cash for the period	343,986	68,599
Net funds at 1 November 1998	172,771	104,172
Net funds at 30 June1999	516,757	172,771

Note - Analysis of changes in net funds

	At 1 November 1998 £	Cash Flows £	At 30 June 1999 £
Cash at bank and in hand	172,771	343,986	516,757

ERNST & YOUNG

NOTES TO THE ACCOUNTS
at 30 June 1999

1. Accounting Policies

Basis of preparation
The accounts are prepared under the historical cost convention modified by the revaluation of investment properties, and in accordance with applicable accounting standards except as explained below. The true and fair view override provisions of the Companies Act 1985 have been invoked as explained below.

Turnover
Turnover represents the net amount derived from the continuing activity of the letting of residential property. Letting income is accounted for on an accruals basis and arise solely in the United Kingdom.

Investment properties
Investment properties are normally accounted for in accordance with Statement of Standard Accounting Practice No. 19 as follows:

Investment properties are revalued annually and surpluses or deficits are transferred to a revaluation reserve. In the case of permanent impairments in the value of individual properties, any deficits below cost are taken to the profit and loss account for the year.

No depreciation is provided in respect of investment properties. Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that this policy of not providing depreciation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

However, as explained in the Directors' Report, this year the properties have again been included at their 1997 values with subsequent additions at cost.

Other tangible fixed assets and depreciation
Depreciation is provided on other tangible fixed assets at rates calculated to write off the cost or valuation less estimated residual value of each asset evenly over its expected useful life as follows:

Furnishings - 8 years straight line method.

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Letting income
Letting income is accounted for on an accruals basis.

NOTES TO THE ACCOUNTS
at 30 June 1999

2. **Employees' and Directors' Remuneration**

The only employees of the Company are its Directors, the costs of whom were:

	1999	*Year to 31 October 1998*
	£	*£*
Amounts paid to third parties (including VAT)	9,376	16,525

In addition to the above the Company entered into the following arrangements in which the Directors had an interest.

Park Circus (Management) Ltd, of which D R Macdonald is a Director and in which he has an interest by virtue of his shareholding in its parent company, received fees of £3,917 (1998 - £5,875) including VAT for professional services and £Nil (1998 - £29,912) including VAT in respect of exit advice.

Park Circus Registrars Limited of which D R Macdonald is a Director and was a shareholder during the period received fees of £1,104 (1998 - £1,010) including VAT for professional services.

Mercantile Securities (Scotland) Limited, in which D R Macdonald has an interest by virtue of his shareholding in its parent company, received fees of £11,045 (1998 - £4,112) including VAT in respect of exit advice.

Graham Harvey & Co., of which H B Shulman was a partner during the period, received fees of £6,813 (1998 - £28,982) in respect of property management and £12,029 (1998 - £9,030) including VAT in respect of legal advice and property sales matters.

3. **Loss on Ordinary Activities before Taxation**

This is stated after charging:

	1999	*Year to 31 October 1998*
	£	*£*
Auditors' remuneration for audit services (including VAT)	4,700	3,525
Exit costs	17,096	46,509

The auditors received no fees in respect of non-audit services (1998 - £Nil).

4. **Tax on Loss on Ordinary Activities**

	1999	*Year to 31 October 1998*
	£	*£*
Corporation tax on:		
Gain/(loss) on sale of investment properties	4,382	(5,285)
Other activities	(3,220)	(8,901)
	1,162	(14,186)

NOTES TO THE ACCOUNTS
at 30 June 1999

5. Tangible Fixed Assets

	Investment Properties £	*Furnishings* £	*Total* £
Cost or valuation:			
At 1 November 1998	2,677,119	32,396	2,709,515
Additions at cost	-	-	-
Disposals	(365,589)	(5,800)	(371,389)
At 30 June 1999	2,311,530	26,596	2,338,126
Depreciation:			
At 1 November 1998	-	17,195	17,195
Provided in the year	-	2,700	2,700
Disposals	-	(1,225)	(1,225)
Balance at 30 June 1999	-	18,670	18,670
Net book value at 30 June 1999	2,311,530	7,926	2,319,456
Net book value at 31 October 1998	2,677,119	15,201	2,692,320

In the 31 October 1997 financial statements the directors' valuation comprised a valuation of the company's investment portfolio by Messrs Geoffrey Bernstein & Co., Consultant Actuaries, dated October 1997, which included inter alia the results of independent professional valuations on a vacant possession basis of each of the company's properties and actuarial calculations reflecting existing life tenancies.

The historical cost of the investment properties is as follows:

	At valuation £	*At cost* £	*Total* £
At 30 June 1999	1,925,427	26,715	1,952,142
At 31 October 1998	2,138,939	26,715	2,165,654

6. Debtors

	1999 £	*31 October 1998* £
Other debtors	22,299	26,854
Prepayments	7,727	4,850
	30,026	31,704

NOTES TO THE ACCOUNTS
at 30 June 1999

7. **Creditors:** amounts falling due within one year

	1999 £	*31 October 1998* £
Other creditors	160	75
Corporation tax	25,938	323
Accruals and deferred income	33,029	57,217
	59,127	57,615

8. **Provision for Liabilities and Charges**

	1999 £	*31 October 1998* £
Deferred taxation		
At 1 November 1998	83,710	98,770
Utilised	(24,453)	(14,509)
Arising during the period	(15,390)	(551)
At 30 June 1999	43,867	83,710

The provision represents the estimated capital gains tax liability which would arise if the properties were sold at their revalued amounts.

9. **Share Capital**

	1999 £	*31 October 1998* £
Authorised:		
12,000,000 Ordinary shares of 50p per share	6,000,000	6,000,000
Allotted, issued and fully paid		
2,417,791 Ordinary shares of 50p per share	1,208,896	1,208,896

10. **Share Premium Account**

	1999 £	*31 October 1998* £
At 31 October 1998 and 30 June 1999	955,459	955,459

NOTES TO THE ACCOUNTS
at 30 June 1999

11. Revaluation Reserve

	1999 £	*31 October 1998* £
At 1 November 1998	427,755	499,594
Revaluation during financial year	-	-
Deferred taxation adjustment re indexation	15,390	551
Transfer to profit and loss account on disposal	(127,624)	(72,390)
At 30 June 1999	315,521	427,755

12. Reconciliation of Movements in Shareholders' Funds

	Share capital £	*Share premium account* £	*Revaluation reserve* £	*Profit and loss account* £	*Total* £
At 31 October 1997	1,208,896	955,459	499,594	193,716	2,857,665
Loss for the financial year	-	-	-	(102,744)	(102,744)
Deferred taxation	-	-	551	-	551
Transfer to profit and loss account	-	-	(72,390)	72,390	-
At 31 October 1998	1,208,896	955,459	427,755	163,362	2,755,472
Loss for the financial year	-	-	-	(7,617)	(7,617)
Deferred taxation	-	-	15,390	-	15,390
Transfer to profit and loss account	-	-	(127,624)	127,624	-
At 30 June 1999	1,208,896	955,459	315,521	283,369	2,763,245

13. Reconciliation of Operating Loss to Net Cash Outflow from Operating Activities

	1999 £	*31 October 1998* £
Operating loss	(38,230)	(99,220)
Depreciation charge	2,700	4,050
Decrease/(increase) in debtors	1,678	(516)
(Decreases)/Increase in creditors	(24,101)	17,123
Net cash outflow from operating activities	(57,953)	(78,563)

14. Commitments and Other Obligations

The company has no capital commitments at 30 June 1999 (1998 - £Nil).