

Reversionary Gains II Limited

(formerly Reversionary Gains II 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.

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

ERNST & YOUNG

04 OCT 1999



Reversionary Gains II Limited

(formerly Reversionary Gains II PLC)

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 October 1998.

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 year. 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 year to be satisfactory having regard to the exceptional costs incurred in evaluating future options for the Company and its Shareholders.

Fixed assets

During the year, two 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 last year the Directors have not done so this year pending decisions on future options and the properties are stated at their 1997 values. 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.

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.

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DIRECTORS' REPORT

Directors and their interests

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

<i>Ordinary shares of 50p each</i>		
	<i>31 October 1998</i>	<i>31 October 1997</i>
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.	-	-
A D B Taylor, B.A. (resigned 9 February 1998)	-	-

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

30 September 1999

**REPORT OF THE AUDITORS
to the members of Reversionary Gains II 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 on the basis of 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. 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, 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 31 October 1998. The investment properties have been included in the accounts at their 1997 values, in contravention of Statement of Standard Accounting Practice 19 (SSAP 19). In the absence of valuations at 31 October 1998, we are unable to determine the impact, if any, that this departure from SSAP 19 would have on the financial statements.

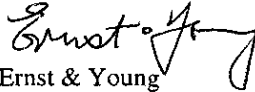
In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 31 October 1998 and of its loss for the year 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
Registered Auditor
Glasgow

30 September 1999

Reversionary Gains II Limited

(formerly Reversionary Gains II PLC)

PROFIT AND LOSS ACCOUNT

for the year ended 31 October 1998

	Notes	1998 £	1997 £
Turnover	1	22,004	30,879
Depreciation on furnishings		(451)	(451)
Other cost of sales		(35,848)	(14,487)
		(36,299)	(14,938)
Gross (loss)/profit		(14,295)	15,941
Administration expenses		(84,627)	(55,367)
Operating loss		(98,922)	(39,426)
Loss on sale of investment properties		(4,418)	(16,620)
Bank interest receivable		604	252
Loss on ordinary activities before taxation	3	(102,736)	(55,794)
Tax on loss on ordinary activities	4	-	-
Loss for the financial year	12	(102,736)	(55,794)

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 October 1998

	1998 £	1997 £
Loss for the financial year	(102,736)	(55,794)
Unrealised gain on revaluation of properties	-	161,658
Deferred tax provision on revaluation of properties	-	(31,297)
Total recognised gains and losses relating to the year	(102,736)	74,567

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

Reversionary Gains II Limited

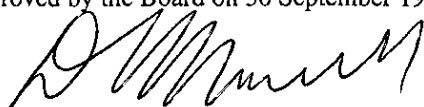
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BALANCE SHEET

at 31 October 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible fixed assets	5	1,503,221	1,567,770
Current assets			
Debtors	6	20,930	22,056
Cash at bank and in hand		1,583	7,543
		22,513	29,599
Creditors: amounts falling due within one year	7	(64,333)	(29,757)
Net current liabilities		(41,820)	(158)
Total assets less current liabilities		1,461,401	1,567,612
Provision for liabilities and charges	8	(27,822)	(31,297)
		1,433,579	1,536,315
Capital and reserves			
Called up share capital	9	737,750	737,750
Share premium account	10	558,434	558,434
Revaluation reserve	11	180,074	200,256
Profit and loss account		(42,679)	39,875
Equity Shareholders' Funds		1,433,579	1,536,315

Approved by the Board on 30 September 1999



D R Macdonald
Director

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

Reversionary Gains II Limited

(formerly Reversionary Gains II PLC)

STATEMENT OF CASH FLOWS

for the year ended 31 October 1998

	Notes	1998 £	1997 £
Net cash outflow from operating activities	13	(62,769)	(39,849)
Returns on investments and servicing of finance			
Interest received		604	252
Taxation			
Corporation tax paid		-	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		-	-
Sale proceeds of tangible fixed assets		56,205	45,763
(Decrease)/increase in cash for the year		<u>(5,960)</u>	<u>6,166</u>

Reconciliation of net cash flow to movement in net funds

	1998 £	1997 £
(Decrease)/increase in cash for the year	(5,960)	6,166
Net funds at 1 November 1997	7,543	1,377
Net funds at 31 October 1998	<u>1,583</u>	<u>7,543</u>

Note - Analysis of changes in net funds

	At 1 November 1997 £	Cash Flows £	At 31 October 1998 £
Cash at bank and in hand	7,543	(5,960)	1,583

Reversionary Gains II Limited

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NOTES TO THE ACCOUNTS

at 31 October 1998

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 are included at their 1997 values.

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.

Reversionary Gains II Limited

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NOTES TO THE ACCOUNTS

at 31 October 1998

2. Employees' and Directors' Remuneration

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

	1998 £	1997 £
Amounts paid to third parties (including VAT)	9,876	14,816

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 £5,875 (1997 - £5,875) including VAT, for professional services and £29,375 (1997 - £11,750) 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 £524 (1997 - £627) including VAT for professional services.

Neil Clerk Capital Limited, of which D R Macdonald was a Director and in which he had an interest by virtue of his shareholding in its parent company during the year, received fees of £952 (1997 - £952) including VAT, in respect of BES monitoring and £6,609 (1997 - £Nil) including VAT, in respect of exit advice.

Graham Harvey & Co., of which A D B Taylor is a partner and H B Shulman was a partner during the year, received fees of £12,690 (1997 - £7,034) in respect of property management, and £1,908 (1997 - £Nil) including VAT in respect of legal advice and property sales matters.

3. Loss on Ordinary Activities before Taxation

This is stated after charging:

	1998 £	1997 £
Auditors' remuneration for audit services (including VAT)	2,937	2,937
Exit costs	35,984	11,750

The auditors received no fees in respect of non-audit services (1997 - £Nil).

4. Tax on Loss on Ordinary Activities

There is no liability to corporation tax on the loss for the year (1997 - £Nil).

Reversionary Gains II Limited

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NOTES TO THE ACCOUNTS

at 31 October 1998

5. Tangible Fixed Assets

	<i>Investment Properties</i> £	<i>Furnishings</i> £	<i>Total</i> £
Cost or valuation:			
At 1 November 1997	1,566,418	3,607	1,570,025
Disposals	(64,098)	-	(64,098)
At 31 October 1998	1,502,320	3,607	1,505,927
Depreciation:			
At 1 November 1997	-	2,255	2,255
Provided in the year	-	451	451
Balance at 31 October 1998	-	2,706	2,706
Net book value at 31 October 1998	1,502,320	901	1,503,221
Net book value at 31 October 1997	1,566,418	1,352	1,567,770

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 investment properties included at valuation is as follows:

	£
At 31 October 1998	1,294,424
At 31 October 1997	1,334,866

6. Debtors

	1998 £	1997 £
Other debtors	17,119	17,416
Prepayments	3,811	4,640
	20,930	22,056

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NOTES TO THE ACCOUNTS

at 31 October 1998

7. Creditors: amounts falling due within one year

	1998 £	1997 £
Other creditors	-	1,087
Corporation tax	-	-
Accruals and deferred income	64,333	28,670
	<u>64,333</u>	<u>29,757</u>

8. Provision for Liabilities and Charges

	1998 £	1997 £
Deferred taxation	27,822	31,297
	<u>27,822</u>	<u>31,297</u>

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

9. Share Capital

	1998 £	1997 £
<i>Authorised:</i>		
12,000,000 Ordinary shares of 50p per share	6,000,000	6,000,000
	<u>6,000,000</u>	<u>6,000,000</u>
<i>Allotted, issued and fully paid</i>		
1,475,499 Ordinary shares of 50p per share	737,750	737,750
	<u>737,750</u>	<u>737,750</u>

10. Share Premium Account

	1998 £	1997 £
At 31 October 1997 and 31 October 1998	558,434	558,434
	<u>558,434</u>	<u>558,434</u>

11. Revaluation Reserve

	1998 £	1997 £
At 1 November 1997	200,256	90,847
Revaluation during year	-	161,658
Deferred taxation provision on revaluation of assets	-	(31,297)
Transfer to profit and loss account on disposal	(20,182)	(20,952)
	<u>(20,182)</u>	<u>(20,952)</u>
At 31 October 1998	180,074	200,256
	<u>180,074</u>	<u>200,256</u>

Reversionary Gains II Limited

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NOTES TO THE ACCOUNTS

at 31 October 1998

12. Reconciliation of Movements in Shareholders' Funds

	Share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
At 31 October 1996	737,750	558,434	90,847	74,717	1,461,748
Loss for the year	-	-	-	(55,794)	(55,794)
Unrealised gain on revaluation of assets	-	-	161,658	-	161,658
Deferred taxation provision	-	-	(31,297)	-	(31,297)
Transfer to profit and loss account	-	-	(20,952)	20,952	-
At 31 October 1997	737,750	558,434	200,256	39,875	1,536,315
Loss for the year	-	-	-	(102,736)	(102,736)
Transfer to profit and loss account	-	-	(20,182)	20,182	-
	737,750	558,434	180,074	(42,679)	1,433,579

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

	1998 £	1997 £
Operating loss	(98,922)	(39,426)
Depreciation charge	451	451
Decrease in debtors	1,126	2,305
Increase/(decrease) in creditors	34,576	(3,179)
Net cash outflow from operating activities	(62,769)	(39,849)

14. Commitments and Other Obligations

The company has no capital commitments at 31 October 1998 (1997 - £Nil).