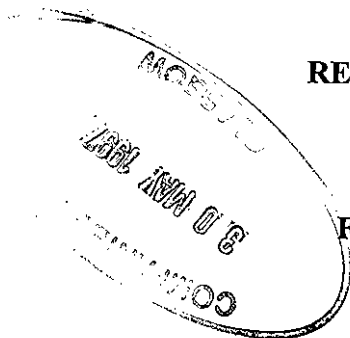


REGISTRAR
OF COMPANIES

132641



REVERSIONARY GAINS II PLC

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED

31st OCTOBER 1996

[Handwritten signature]



REVERSIONARY GAINS II PLC

Annual report and financial statements for the year ended 31st October 1996

Contents

Page

1	Company information
2	Chairman's statement
3-4	Report of the Directors
5	Report of the auditors
6	Profit and loss account and Statement of total recognised gains and losses
7	Balance sheet
8	Cash flow statement
9-13	Notes forming part of the Financial Statements
14	Notice of annual general meeting
15	Proxy form for annual general meeting
16	BES Monitoring letter

Registered number: 132641

Company information

Directors

D. R. Macdonald, B.L., N.P.
H B Shulman, LL.M
D H S Toplas, M.A., M.Sc., A.C.A.
A D B Taylor, B.A.

Secretary and Registered Office

Park Circus Secretaries Limited
6 Park Circus Place
Glasgow G3 6AN

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
6 Park Circus Place
Glasgow
G3 6AN

Solicitors

Neill Clerk & Murray
6 Park Circus Place
Glasgow
G3 6AN

Solicitors and Property Managers

Graham Harvey
Sarda House
183-189 Queensway
London
W2 5HL

Chairman's Statement

Dear Shareholder,

I am pleased to enclose the Directors Report and the Profit and Loss Account and Balance Sheet of the Company for the year to 31 October 1996.

No properties fell vacant during the year. Two of the three properties which fell vacant last year have been re-let. There were no other changes in the property portfolio.

A handwritten signature in black ink, appearing to read 'D Ross Macdonald', with a stylized, cursive script.

D Ross Macdonald
Chairman
23 May 1997

Report of the Directors for the year ended 31 October 1996

The Directors submit their report together with the audited financial statements for the year ended 31 October 1996.

Results and Dividends

The profit and loss account of the Company is set out on page 6 and shows the loss for the year. The Directors propose that no dividend be paid.

Principal activities, review of business and future developments

The principal activity of the Company is the letting of residential property on assured tenancies. The Directors consider the results of the year to be satisfactory.

Fixed assets

Movements in fixed assets are set out in note 5 to the Financial Statements.

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 year. In preparing those financial statements, 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 Interests

The Directors of the Company during the year were those listed on page 1 and their interests in the ordinary share capital of the Company were:

	Ordinary shares of 50p each	
	31 October 1996	31 October 1995
D R Macdonald	1	1

Payment to creditors

The Company does not follow any specified 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.

Auditors

Ernst & Young, Chartered Accountants & Registered Auditors, 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
Secretary

23 May 1997

We have audited the financial statements on pages 6 to 13 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 9.

Respective responsibilities of directors and auditors

As described on page 3, 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. 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 affairs of the Company as at 31 October 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants & Registered Auditors
Glasgow

23 May 1997

**Profit and loss account
for the year ended 31 October 1996**

	Notes	Year ended 31 October 1996 £	Year ended 31 October 1995 £
Turnover	1	<u>33,828</u>	<u>34,598</u>
Depreciation on Furnishings		(451)	(451)
Other cost of sales		<u>(13,444)</u>	<u>(11,677)</u>
		<u>(13,895)</u>	<u>(12,128)</u>
Gross profit		19,933	22,470
Administrative expenses		<u>(29,715)</u>	<u>(21,616)</u>
Operating (loss)/profit		(9,782)	854
Bank interest receivable		549	1,220
(Loss)/profit on ordinary activities before taxation	3	<u>(9,233)</u>	<u>2,074</u>
Tax on profit on ordinary activities	4	-	339
(Loss)/profit for the financial year	11	<u><u>(£9,233)</u></u>	<u><u>£2,413</u></u>

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

**Statement of Recognised Gains and Losses
for the year ended 31 October 1996**

	Year ended 31 October 1996 £	Year ended 31 October 1995 £
(Loss)/profit attributable to the shareholders of the Company	(9,233)	2,413
Unrealised gain on revaluation of assets	-	67,040
Total recognised (losses)/gains	<u><u>(£9,233)</u></u>	<u><u>£69,453</u></u>

The notes on pages 9-13 form part of these financial statements.

Balance sheet at 31 October 1996

	Notes	1996 £	£	1995 £	£
Fixed assets					
Tangible assets	5		1,468,946		1,454,916
Current assets					
Debtors	6	24,361		14,616	
Cash at bank and in hand		<u>1,377</u>		<u>28,776</u>	
		25,738		43,392	
Creditors					
Amounts falling due within one year	7	<u>(32,936)</u>		<u>(27,327)</u>	
Net current (liabilities)/assets			<u>(7,198)</u>		<u>16,065</u>
Total assets less current liabilities			<u>£1,461,748</u>		<u>£1,470,981</u>
Capital and reserves					
Called up share capital	8		737,750		737,750
Share premium account	9		558,434		558,434
Revaluation reserve	10		90,847		90,847
Profit and loss account			<u>74,717</u>		<u>83,950</u>
Equity Shareholders' Funds	11		<u>£1,461,748</u>		<u>£1,470,981</u>

Approved by the Board on 23 May 1997



Mr D.R. Macdonald
Director

The notes on pages 9 to 13 form part of these financial statements

**Cash flow statement
for the year ended 31 October 1996**

	Notes	Year ended 31 October 1996 £	Year ended 31 October 1995 £
Net cash (outflow)/inflow from operating activities	12	(13,121)	6,987
Returns on investments and servicing of finance			
Interest received		549	1,220
Net cash inflow from returns on investments and servicing of finance		<u>549</u>	<u>1,220</u>
Taxation			
U K Corporation tax paid		<u>(346)</u>	<u>(1,333)</u>
Investing Activities			
Purchase of tangible fixed assets		<u>(14,481)</u>	<u>210</u>
Net cash (outflow)/inflow from investing activities		<u>(14,481)</u>	<u>210</u>
Net cash (outflow)/inflow before financing		<u>(27,399)</u>	<u>7,084</u>
(Decrease)/increase in cash and cash equivalents	13	<u>(£27,399)</u>	<u>£7,084</u>

**Notes forming part of the financial statements
for the year ended 31 October 1996**

1 Accounting Policies

Basis of preparation

The Financial Statements are prepared under the historical cost convention modified by the revaluation of investment properties, in accordance with applicable accounting standards. The true and fair 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 arises solely in the United Kingdom.

Investment properties

Investment properties are 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 the 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.

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.

Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Notes forming part of the financial statements
for the year ended 31 October 1996

2 Employees' and Directors' Remuneration

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

	Year ended 31 October 1996 £	Year ended 31 October 1995 £
Amounts paid to third parties (including VAT)	<u>£7,171</u>	<u>£8,231</u>

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

Park Circus (Management) Ltd and Park Circus Registrars Ltd, (both of which D R Macdonald is a Director), received fees of £5,875 and £635 respectively including VAT, in respect of company administration and secretarial services (1995: £5,875 and £635).

Neill Clerk & Murray, (of which D R Macdonald was during the year a partner), received fees of £952 including VAT, in respect of BES monitoring (1995: £952).

Graham Harvey & Co., of which H B Shulman and A D B Taylor are partners, received fees of £2,220 and £657 including VAT in the year (1995: £2,007 and £Nil) in respect of property management and legal advice respectively.

3 (Loss)/profit on Ordinary Activities before Taxation

	Year ended 31 October 1996 £	Year ended 31 October 1995 £
This is stated after charging :		
Auditors' remuneration for audit services	2,937	3,937
Depreciation	<u>451</u>	<u>451</u>

The auditors received £Nil (1995: £100) including VAT in respect of non-audit services.

4 Tax on (loss)/profit on ordinary activities

	Year ended 31 October 1996 £	Year ended 31 October 1995 £
United Kingdom Corporation tax at 25%	-	346
Over provision in prior year	-	<u>(685)</u>
	<u>£ -</u>	<u>(£339)</u>

There is no liability to corporation tax on the loss for the year.

5 Tangible Fixed Assets

	Investment Properties £	Furnishings £	Total £
Cost or valuation			
At 31 October 1995	1,452,662	3,607	1,456,269
Additions	14,481	-	14,481
Revaluation of properties	-	-	-
At 31 October 1996	1,467,143	3,607	1,470,750
Depreciation			
At 31 October 1995	-	1,353	1,353
Charge for the year	-	451	451
At 31 October 1996	-	1,804	1,804
Net Book Value			
At 31 October 1996	<u>£1,467,143</u>	<u>£1,803</u>	<u>£1,468,946</u>
At 31 October 1995	<u>£1,452,662</u>	<u>£2,254</u>	<u>£1,454,916</u>

The Directors have taken in at full market value those dwelling houses which have reverted to vacant possession on death of reversionary tenants. Having done that, the Directors have made no further increase for the current year in the values of properties still rented to reversionary tenants.

If the properties were sold at their revalued amount there would be a liability of approximately £23,000 before indexation allowance on capital gains arising from the sale.

The historical cost of investment properties included at valuation is as follows:

	£
At 31 October 1996	<u>1,376,296</u>
At 31 October 1995	<u>1,361,815</u>

Notes forming part of the financial statements
for the year ended 31 October 1996

6 Debtors

	1996 £	1995 £
Amounts falling due within one year:		
Other debtors	20,588	13,203
Prepayments	3,773	1,413
	<u>£24,361</u>	<u>£14,616</u>

7 Creditors: Amounts falling due within one year

	1996 £	1995 £
Other creditors	1,087	-
Corporation tax	-	346
Accruals and deferred income	31,849	26,981
	<u>£32,936</u>	<u>£27,327</u>

8 Share Capital

	1996 £	1995 £
Authorised:		
12,000,000 Ordinary Shares of 50p each	<u>£6,000,000</u>	<u>£6,000,000</u>
Allotted issued and fully paid		
1,475,499 Ordinary Shares of 50p each	<u>£737,750</u>	<u>£737,750</u>

9 Share Premium Account

	1996 £	1995 £
At 31 October 1996 and 31 October 1995	<u>£558,434</u>	<u>£558,434</u>

10 Revaluation Reserve

	1996 £	1995 £
At 31 October 1995	90,847	23,807
Revaluation during year	-	67,040
At 31 October 1996	<u>£90,847</u>	<u>£90,847</u>

Notes forming part of the financial statements
for the year ended 31 October 1996

11 Reconciliation of Movements in Shareholders' Funds

	Share Capital £	Share Premium Account £	Revaluation Reserve £	Profit & Loss Account £	Total £
Shareholders' funds at 31 October 1994	737,750	558,434	23,807	81,537	1,401,528
Profit for the year	-	-	-	2,413	2,413
Unrealised gain on revaluation of assets	-	-	67,040	-	67,040
Shareholders' funds at 31 October 1995	737,750	558,434	90,847	83,950	1,470,981
Loss for the year	-	-	-	(9,233)	(9,233)
Unrealised gain on revaluation of assets	-	-	-	-	-
Shareholders' funds at 31 October 1996	<u>£737,750</u>	<u>£558,434</u>	<u>£90,847</u>	<u>£74,717</u>	<u>£1,461,748</u>

12 Reconciliation of Operating Profit to Net Cashflow From Operating Activities

	Year ended 31 October 1996 £	Year ended 31 October 1995 £
Operating (loss)/profit	(9,782)	854
Depreciation charge	451	451
(Increase)/decrease in debtors	(9,745)	9,189
Increase/(decrease) in creditors	5,955	(3,507)
Net cash (outflow)/inflow from operating activities	<u>(£13,121)</u>	<u>£6,987</u>

13 Analysis of Changes in cash and cash equivalents during the year

	Year ended 31 October 1996 £	Year ended 31 October 1995 £
Balance at 31 October 1995	28,776	21,692
Net cash (outflow)/inflow	<u>(27,399)</u>	<u>7,084</u>
Balance at 31 October 1996	<u>£1,377</u>	<u>£28,776</u>

14 Commitments and Other Obligations

The company has no capital commitments at 31 October 1996 and 31 October 1995.

NOTICE IS HEREBY GIVEN That the Annual General Meeting of Reversionary Gains II Plc will be held at No.1 Portland Place, London W1N 3AA on Wednesday, 2 July 1997 at 2.15pm for the following purposes:

- 1 To receive the Report of the Directors and the Financial Statements for the year ended 31 October 1996.
(Resolution 1)
- 2 To re-appoint Ernst & Young as Auditors of the Company.
(Resolution 2)
- 3 To authorise the Directors to fix the remuneration of the Auditors.
(Resolution 2)

Members entitled to attend and vote at the above meeting are entitled to appoint one or more proxies to attend and, on a poll, vote on their behalf. A proxy need not also be a member. Holders of Certificates of Beneficial Entitlement can instruct the relevant Nominee Company (being either Reversionary Gains II (First Nominees) Limited, Reversionary Gains II (Second Nominees) Limited, or Reversionary Gains II (Third Nominees) Limited to vote by using the enclosed Form of Instruction

BY ORDER OF THE BOARD



Director - on behalf of
Park Circus Secretaries Limited

23 May 1997

Proxy Form for Annual General Meeting

I/We

of

being a beneficial owner of shares in Reversionary Gains II Plc registered in the name of either Reversionary Gains II (First Nominees) Limited, Reversionary Gains II (Second Nominees) Limited, or Reversionary Gains II (Third Nominees) Limited, (the Nominee Companies), hereby instruct the relevant Nominee Company to vote in my/our names and on my/our behalf at the Annual General Meeting to be held at No.1 Portland Place, London W1N 3AA on Wednesday, 2 July 1997 at 2.15pm and at any adjournment thereof.

This form is to be used in respect of the resolutions mentioned below as follows :-

RESOLUTION NO 1	*FOR	*AGAINST
RESOLUTION NO 2	*FOR	*AGAINST
RESOLUTION NO 3	*FOR	*AGAINST

* strike out whichever is not desired. Unless otherwise instructed the proxy may vote as he thinks fit or abstain from voting.

Signed thisday of1997

1. This form to be valid should be deposited at the office of Park Circus Secretaries Limited, 6 Park Circus Place Glasgow G3 6AN not less than 48 hours before the meeting. The Nominee Companies shall appoint a corporate representative to exercise votes in accordance with the instructions so received.

2. Any beneficial owner wishing to attend the Annual General Meeting in person may do so and shall be deemed to be a corporate representative of the Nominee Companies in respect of such shares of which they are the beneficial owner only and shall be accordingly be entitled to vote at the meeting.

The Directors
Reversionary Gains II Plc
6 Park Circus Place
Glasgow
G3 6AN

Gentlemen

BES Monitoring

During the Company's financial year ended on 31 October 1996, you provided to us all property manager's reports to your Board, all Board agenda and all Board minutes.

We maintained close contact with you and had full information on the Company's affairs during the financial year.

In our view full information indicates that the Company maintained its qualifying status in terms of the Business Expansion Scheme.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'James Daddell', written in a cursive style.

Neill Clerk Capital Limited