



PROWTING FLEXIBLE GROWTH PLC

**DIRECTORS' REPORT AND FINANCIAL
STATEMENTS**

for the year ended 28 February 1998





DIRECTORS

SD Mantell
R Templeman

SECRETARY

SD Mantell

REGISTERED OFFICE

Kings Court
Parsonage Lane
Bath BA1 1ER

AUDITORS

Deloitte & Touche
Queen Anne House
69-71 Queen Square
Bristol BS1 4JP

BANKERS

Midland Bank plc
45 Milsom Street
Bath BA1 1DU

SOLICITORS

Chase & Co
Breakspear House
Bury Street
Ruislip
Middlesex HA4 7SY

**DIRECTORS' REPORT**
for the year ended 28 February 1998**FINANCIAL STATEMENTS**

The directors present their report and audited financial statements for the year ended 28 February 1998.

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, 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. 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.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity is to act as a property investment company.

The company has purchased residential property from the subsidiaries of Prowting PLC which it is renting under the Assured Tenancy rules contained within the Housing Act 1988 and the Business Expansion Scheme.

The company has entered into the following agreements, details of which were set out in the Memorandums to the Issue dated 10 March and 19 March 1993:

- with Prowting PLC and the National Westminster Bank plc, the Deed of Undertaking;
- with Prowting PLC and the directors, a Deed of Covenant;
- with Prowting Homes Limited and Pinnacle Housing Limited, the Property Management and Delegation Agreements; and
- with Pinnacle Housing Limited, the Administrative Services Agreement.

On 14 April 1998 Prowting PLC made an offer to the shareholders to acquire the entire share capital of the company. On the same day the offer was accepted. The agreements referred to above then expired.

The company continued to develop satisfactorily during the year and at the end of the year the company was in a good position to continue this development.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £120,585 (1997: £161,758). The directors do not propose the payment of a dividend and recommend that £120,585 is transferred to reserves.

PROWTING FLEXIBLE GROWTH PLC

DIRECTORS' REPORT
for the year ended 28 February 1998

FIXED ASSETS

Details of movements in fixed assets during the year are set out in Note 4 to the financial statements.

DIRECTORS

The directors during the year were as follows:

SD Mantell (appointed 14 April 1998)
R Templeman
GJH Burdett (resigned 14 April 1998)
RA Lo (resigned 14 April 1998)

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 28 February 1998 had the following beneficial interests in the shares of the company at the beginning and end of the financial year:

	50p Ordinary shares fully paid	
	1998	1997
GJH Burdett	-	-
R Templeman	10,000	10,000
RA Lo	1	1

R Templeman is a director of Prowting PLC, which as at the year end beneficially owned the fully paid up 'A' ordinary share of 50p in the share capital of the company.

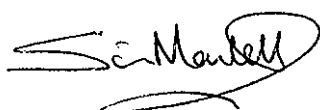
PAYMENT POLICY

The company's policy is to comply with the terms of payment agreed with a supplier. Where payment is made by Pinnacle Housing Limited in accordance with the management agreement, Pinnacle Housing Limited complies with the company's payment policy. Where terms are not negotiated, both the company and Pinnacle Housing Limited endeavour to adhere to the supplier's standard terms.

AUDITORS

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

This report was approved by the Board on **14 JUL 1998**



SD Mantell



Chartered Accountants

Deloitte & Touche
Queen Anne House
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Bristol BS1 4JP

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AUDITORS' REPORT

to the members of Prowting Flexible Growth PLC

We have audited the financial statements on pages 4 to 11 which have been prepared under the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 1, 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 28 February 1998 and of its profit 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

15 July 1998



PROWTING FLEXIBLE GROWTH PLC

**PROFIT AND LOSS ACCOUNT
AND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 28 February 1998**

	Notes	Continuing operations	
		1998	1997
		£	£
PROFIT AND LOSS ACCOUNT			
Rental income		331,263	370,758
Property expenses		(119,244)	(129,643)
Amounts written off properties		(27,393)	-
Gross profit		184,626	241,115
Administrative expenses	2	(45,670)	(44,318)
Operating profit		138,956	196,797
Loss on disposal of tangible fixed assets		(5,169)	-
Bank interest receivable		26,307	9,585
Profit on ordinary activities before taxation		160,094	206,382
Tax on profit on ordinary activities	3	(39,509)	(44,624)
Retained profit for the year	9	120,585	161,758
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
Profit for the financial year		120,585	161,758
Unrealised deficit on revaluation of properties		-	(44,126)
Total recognised gains		120,585	117,632



PROWTING FLEXIBLE GROWTH PLC

BALANCE SHEET
as at 28 February 1998

	Notes	1998	1997
		£	£
FIXED ASSETS			
Tangible assets	4	4,250,582	4,536,717
CURRENT ASSETS			
Debtors	5	15,249	10,434
Cash at bank and in hand		701,758	305,196
		717,007	315,630
CREDITORS: amounts falling due within one year	6	(41,267)	(46,610)
Net current assets		675,740	269,020
Net assets		4,926,322	4,805,737
CAPITAL AND RESERVES			
Called up share capital	7	2,315,002	2,315,002
Share premium account		2,037,200	2,037,200
Revaluation reserve	8	-	(126,884)
Profit and loss account	9	574,120	580,419
Total equity shareholders' funds		4,926,322	4,805,737

The financial statements on pages 4 to 11 were approved by the Board on **14 JUL 1998**

SD Mantell
Director



PROWTING FLEXIBLE GROWTH PLC

**CASH FLOW STATEMENT
for the year ended 28 February 1998**

	Notes	1998	1997
		£	£
Net cash inflow from operating activities	10	192,703	209,363
Returns on investments and servicing of finance			
Interest received		21,933	9,585
Taxation			
UK corporation tax paid		(44,476)	(46,634)
Investing activities			
Proceeds from sale of tangible fixed assets		226,402	-
Increase in cash in the year	11	396,562	172,314

1 ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention, as modified to include the revaluation of investment properties, and in accordance with applicable accounting standards.

Tangible fixed assets and depreciation

Tangible fixed assets (with the exception of investment properties) are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful life as follows:

Fixtures and fittings - 5 years

Investment properties

Investment properties are revalued annually to recognise a proportion of the gain which will accrue at the end of five years under the Deed of Undertaking referred to in Note 4(3). The aggregate surplus or deficit is transferred to the revaluation reserve unless the deficit is considered to be permanent in which case the deficit is taken to the profit and loss account. No depreciation is provided as the Deed of Undertaking fixes the residual value of the properties at an amount greater than cost.

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income, expenditure and property revaluations for taxation and accounting purposes, except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

Rental income

Rental income comprises gross rents receivable.

2 ADMINISTRATIVE EXPENSES

Under the terms of the Supervisory Management Agreement between Pinnacle Housing Limited and the company, Pinnacle Housing Limited are responsible, out of the management fee charged, for all the administrative costs of the company, including the following costs:

	1998 £	1997 £
Auditors' remuneration		
- audit services	1,539	1,539
- other services including taxation	385	385
Directors' emoluments	3,168	3,094

3 TAXATION

UK current year taxation

UK corporation tax at 21.25% (1997: 24%)	39,500	44,467
Under provision in prior year	9	157

Tax on profit on ordinary activities	39,509	44,624
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4 TANGIBLE FIXED ASSETS
(1) Summary

	Investment properties £	Fixtures and fittings £	Total £
Cost or valuation			
1 March 1997	4,509,244	69,347	4,578,591
Disposals	(231,269)	(2,202)	(233,471)
Revaluation	(27,393)	-	(27,393)
28 February 1998	4,250,582	67,145	4,317,727
Depreciation			
1 March 1997	-	41,874	41,874
Charge for the year	-	27,171	27,171
Disposals	-	(1,900)	(1,900)
28 February 1998	-	67,145	67,145
Net book value			
28 February 1998	4,250,582	-	4,250,582
28 February 1997	4,509,244	27,473	4,536,717

The historical cost of the company's investment properties was £4,404,859 (1997: £4,636,128).

(2) Analysis of investment properties

	1998 £	1997 £
Net book value		
Freehold	2,799,615	2,978,137
Long leasehold	1,450,967	1,531,107
	4,250,582	4,509,244

(3) Asset revaluations

Under the terms of the Deed of Undertaking made to the company, Prowting PLC has agreed that should there be insufficient company funds to meet the required return to shareholders of 106.4p per ordinary share, Prowting PLC will make up any shortfall by way of a non-recourse, non-interest bearing loan to the company. This undertaking is guaranteed by National Westminster Bank plc (to a limit of £5,320,000).

The formula for calculating the funds required is designed to ensure that, after allowing for both accumulated profits (or losses) in the company and any capital gains tax liability on the sale of properties, the company will have sufficient cash to permit a distribution of at least 106.4p per share to its shareholders on a voluntary liquidation.

The directors are confident that the activities of the company fully meet those specified in the Deed of Undertaking and therefore they have decided that this return to the shareholders can be deemed to accumulate on the net funds invested evenly over the five year period on a compound basis. They have revalued the company's properties accordingly.

The directors confirm that Prowting PLC and National Westminster Bank plc have signed the Deed of Undertaking mentioned above and are able to do so under their constitutions. The directors know of no reason why Prowting PLC or National Westminster Bank plc should not be able to meet the terms of the Deed of Undertaking if called upon to do so.



PROWING FLEXIBLE GROWTH PLC

NOTES TO THE FINANCIAL STATEMENTS

5	DEBTORS	1998 £	1997 £
	Management fees prepaid to Pinnacle Housing Limited	3,793	3,697
	Other debtors	11,456	6,737
		15,249	10,434

6	CREDITORS: amounts falling due within one year		
	Corporation tax	39,500	44,467
	Accruals and deferred income	1,767	2,143
		41,267	46,610

7 CALLED UP SHARE CAPITAL

(1) Authorised	1998	
	Number	£
50p 'A' ordinary share	1	1
50p Ordinary shares	5,999,999	5,999,999

(2) Allotted and fully paid	1998 £	1997 £
50p 'A' ordinary share	1	1
50p Ordinary shares	2,315,001	2,315,001

28 February	2,315,002	2,315,002
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(3) Rights attached to shares

In the event of the winding up of the company at any time after the fifth anniversary of the last issue of shares, the holders of the 4,630,002 ordinary shares and the holder of the 'A' ordinary share will be entitled to receive by way of distribution 106.4p per share held by them (in total £4,926,322 and £1.06 respectively). In the event and to the extent that there are funds available for distribution after a distribution of 106.4p per share to shareholders, the holder of the 'A' ordinary share shall be entitled to receive an amount equal to 106.4p multiplied by the number of ordinary shares less one. Any balance in excess of £9,852,644 shall be distributed equally among the shareholders: 50% to the holders of the ordinary shares and 50% to the holder of the 'A' ordinary share provided always that the holder of the 'A' ordinary share shall not be entitled to receive the greater part of the assets of the company on a winding up of the company or on the company declaring or making any capital or other distribution.

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

- any alteration to the Articles of Association;
- the passing of any extraordinary or special resolution, other than a resolution to wind up the company in the special circumstances as set out in the Articles of Association;
- any increase in the authorised or issued share capital;
- the creation of any new class of share capital of the company; and
- the payment of any dividend, other than in relation to any winding up.



8	REVALUATION RESERVE	£	
	1 March 1997	(126,884)	
	Transfer to profit and loss account	126,884	
	28 February 1998	-	
9	PROFIT AND LOSS ACCOUNT		
	1 March 1997	580,419	
	Retained profit for the year	120,585	
	Transfer from revaluation reserve	(126,884)	
	28 February 1998	574,120	
10	RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES	1998	1997
		£	£
	Operating profit	138,956	196,797
	Amounts written off properties	27,393	-
	Depreciation	27,171	14,368
	Increase in debtors	(441)	(1,134)
	Decrease in creditors	(376)	(668)
	Net cash inflow from operating activities	192,703	209,363
11	NET FUNDS		
	Analysis of net funds		
	Cash at bank and in hand	701,758	305,196
	Reconciliation of net cash flows to movement in net funds		
	1 March	305,196	132,882
	Increase in cash in the year	396,562	172,314
	28 February	701,758	305,196
12	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		
	Profit for the financial year	120,585	161,758
	Other recognised gains and losses relating to the year	-	(44,126)
	Net addition to shareholders' funds	120,585	117,632
	Opening shareholders' funds	4,805,737	4,688,105
	Closing shareholders' funds	4,926,322	4,805,737

13 RELATED PARTY DISCLOSURE

Under the terms of the Management Agreement entered into between Pinnacle Housing Limited and the company, Pinnacle Housing Limited is responsible for managing the properties owned by the company and for handling all the administrative matters associated with the running of the company. During the year, Pinnacle Housing Limited and other group companies received fees for these and other services of £104,573 (gross of irrecoverable VAT), including £10,875 prepaid to Pinnacle Housing Limited at the year end.

14 POST BALANCE SHEET EVENT

On 14 April 1998 Prowing PLC, a company registered in England and Wales, acquired the whole of the share capital of the company.